Islamic Finance news
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Pockets of activity

The Islamic finance industry is coming out of its infancy stage after four decades of growth and development. We at Islamic Finance *news* are proud to have witnessed, participated and recorded some of the more eventful stories of the industry in the last five years. We are privileged to celebrate with you the 250th publication of Islamic Finance *news* this week.

This week our focus is on Islamic finance in South Asia, where the 160 million Muslims in India cannot be overlooked. They are engaged in Shariah compliant banking and finance in a Hindu majority country. For example, Indian conglomerate TATA group has invested in selected Shariah compliant financial instruments.

Apart from Shariah compliant investments in India, venture capital funds and index funds are fuelling the growth of the Islamic finance industry. India also offers a range of incentives including information technology and a pool of manpower to support this growth.

The establishment of a Haj fund is discussed mainly as a way to enable the needy to participate in the mandatory Islamic pilgrimage. Such a fund only requires a minimum contribution of approximately US$11 per head to raise a fund of US$1.8 billion per annum for the Indian Muslim community.

Moving eastward to Bangladesh, the country is yet to develop its Islamic finance sector compared to India. Much of this is to do with the lack of regulation even after 27 years since the presence of Islamic financial products.

Maldives, a 100% Muslim population claim that there is little demand to implement Islamic finance as benefits of the conventional financial system is preferred.

Ghana is a country in sub-Saharan Africa with a small Muslim population that looks at introducing Islamic finance in parallel with conventional banking. For a start, they are introducing Islamic microfinance via Ghana Islamic Microfinance.

Islamic banks, all members of the Dubai Chamber of Commerce and Industry are also keen to explore Islamic financial operations in the country.

In our sector report this week, we focus on ratings for Islamic financial institutions and both Moody's Investor Services and Standard & Poor's give us a comprehensive deconstruction of the different meanings of ratings, and the benefits of rating for Shariah funds.

We also share with you a market report on Dow Jones Islamic Market Indexes analyzing the performance of indexes in first six months of 2010.

Takaful is discussed in the context of treatments required for underwriting deficits, and it turns out that there is no conflict of interest between shareholders and policy holders as to who should be responsible for injecting extra cash in the event of a deficit.

Other features inside are excerpts from a recent book on Islamic finance by Brian Kettel, former economic advisor at the central bank of Bahrain; and you can read about the Muhibbah Engineering Sukuk Mudarabah in our Termsheet page. Our Meet-the-Head personality for this week is Harith Sinclair of UK law firm Pinsent Masons.

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AFRICA

First of its kind

GHANA: Ghana Islamic Microfinance, the first Shariah compliant microfinance organization in the country will begin operations in September 2010.

The organization has set aside US$5 million and a Shariah supervisory board in the aim to provide Shariah compliant microfinance services to the community.

The company does not need immediate licensing from financial regulators as it will be operating under a registered local non-government organization with aims to curb predatory loan practices.

Ghana Islamic Microfinance has plans in the future to apply for licensing from Bank of Ghana to be a fully fledged Islamic finance entity.

Mutual learning

SENEGAL: The Senegal government is looking to Bahrain to help develop its Islamic finance industry in its efforts to turn the country into a financial center.

According to SYM International Finance Corporation CEO Birahim Seck, Senegal is inspired to form financial ties with the Gulf country, aside from learning from its experience, as Bahrain is a hub for both Islamic and conventional finance.

It is also seen as a move to provide a gateway for Bahrain institutions to tap into the entire sub-Saharan African region.

ASIA

Call for Ibra

MALAYSIA: Bank Negara Malaysia has ordered Shariah banks to provide borrowers an Ibra for early settlement. This is to prevent legal disputes and restore confidence in Islamic financing contracts.

The order from the central bank's Shariah advisors will standardize the use of Ibra in Bai Bithaman Ajil and Murabahah contracts which are widely used in Malaysia's Islamic finance market.

The ruling requires the right of rebate to be specified in these contracts. The method of computing the rebate will be determined by the central bank.

In practice, Islamic banks can grant a rebate to waive their right to the unaccrued sum but such discounts are discretionary, resulting in legal disputes. If a rebate is not given, Shariah financing contracts can be more costly than conventional loans.

Package for SMEs

SINGAPORE: Maybank Singapore has launched an Islamic financing package called Maybank Islamic Term Financing targeted at small and medium enterprises (SMEs).

The package, the first of its kind in the industry, offers financing for completed commercial industrial properties to customers on a mid- to long-term basis, with available tenures of three, five, seven and 10 years.

Sukuk to lower deficit

PAKISTAN: The government plans to launch domestic Sukuk bonds this week to generate PKR35 billion (US$409 million) by pledging 2,200 acres of land at Quaid-e-Azam International Airport, Karachi.

The Sukuk is aimed at lowering fiscal deficits and will be launched after a no-objection

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certificate (NOC) is received from the Sindh government and ministry of defense.

The Islamic bonds will be issued in maturity periods of one, two and three years.

Exclusive demands

MALDIVES: Two banks have applied to the Maldives Monetary Authority for Islamic banking licenses in the country, but requests for exclusivity is delaying the approval process.

The finance ministry said the proposals from a multinational and a UAE company are each asking for an exclusive license, which the government is unable to grant to any party.

The ministry expects the new Islamic bank to focus on issuing financing to businesses, with services being extended to all the atolls.

(Also see IFN Report on page 9)

Islamic finance backing

MALAYSIA: Halal commerce in the country is backed by a solid Islamic financing and banking system that covers both domestic and overseas operations, said prime minister Najib Razak.

He said that Malaysian investors can take advantage of existing free trade agreements with various countries to access the Muslim market.

There are 38 Islamic financial institutions in Malaysia, including 18 Islamic banks, eight Takaful operators, seven Islamic fund and wealth management corporations and five investment banks.

High achievement

MALAYSIA: Bursa Suq Al-Sila' has facilitated the issuance of the government's MYR2.4 billion (US$ 741.1 million) Sukuk 1Malaysia, which Islamic Finance news reported last month.

It is the single largest transaction for the Shariah compliant trading platform.

The three-year Sukuk is structured as a Murabahah Sukuk, which uses crude palm oil as trading commodity.

Sukuk best practices

MALAYSIA: The Securities Commission of Malaysia (SCM) will host the 4th International Islamic Capital Market Forum (IICMF) on the 1st July 2010.

The forum is themed "Sukuk: Transferring the Best Practices".

Regulatory framework, Shariah governance and the diversification of portfolio through Sukuk are some of the issues which will be highlighted at the forum.

In addition, SCM will hold a panel discussion on the high-profile Sukuk defaults in the US, Dubai and Malaysia.

Awaiting approval

MALAYSIA: Fajr Capital is in talks to buy a stake in Bank Islam Brunei Darussalam said to be worth about US$200 million.

The Islamic investment firm will make an announcement on the size of the venture once negotiations are finalized.

Fajr Capital was launched last year with an initial funding of RM1.9 billion (US$600 million) from Malaysian sovereign wealth fund Khazanah Nasional, the Brunei Investment Agency and UAE's Abu Dhabi Investment Council.

New Islamic products

Sri Lanka: LB Finance has introduced an Islamic banking window to its services.

The finance institution will provide Shariah compliant pawning services, leasing facilities, trade financing and investment accounts to add to its current list of services.

Switching by the book

PAKISTAN: The State Bank of Pakistan has established regulations for the conversion of conventional banking branches into Islamic banking.

Under the new rules, conversion is only permitted for commercial banks which are allowed to operate Islamic banking divisions, and which possess a Camels-S rating of 'fair' or better in their most recent on-site inspections.

These banks will also be required to present a reason for the conversion, a three-year business plan and an employee training strategy, along with an official request for conversion.

They will also have to acquire customers' approval and inform them of the conversion decision at least four weeks before the switch.

Capital for Islamic unit

INDONESIA: Following its plans to sell some of its stake in BNI Syariah and BNI Securities, Bank Negara Indonesia (BNI) has announced that an Abu Dhabi firm is one of the many investors interested in taking over a portion of its BNI Syariah shares.

According to BNI finance director Yap Tjay Soen, the sale is aimed at increasing capital for its Islamic unit.

Shariah alleviates poverty

PAKISTAN: Islamization of the economic system, if practiced in its true form, will strengthen the economy particularly in income distribution and poverty alleviation, said the former State Bank of Pakistan governor Ishrat Hussain.

Hussain added that the introduction of Islamic banking has promoted financial inclusion by bringing those who have so far remained outside the conventional banking system, thus deepening the financial sector.

This will contribute to the elimination of instability, violence and propensity towards terrorism stemming from a sense of deprivation.

More microfinance loans

MALAYSIA: In an effort to expand the Ar-Rahnu microcredit system nationwide, additional funds for the Muslim economic development foundation Yayasan Pembangunan Ekonomi Islam Malaysia, will be introduced.

Prime minister Najib Razak said that the response to the Islamic pawnbroking system of Ar Rahnu had been overwhelming and demand could not be met, hence the request by the foundation for an increase to the previous allocation.

The amount is being studied by the finance ministry. Previously RM200 million (US$61.9

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million) was allocated to 63 branches or RM4.5 (US$1.39 million) for each branch.

Thirst quencher

MALAYSIA: Encouraged by the strong demand for Shariah-based investment products in the Gulf and other countries, CIMB-Principal Islamic Asset Management will be launching Shariah compliant offshore funds and Islamic investment funds.

According to Principal Global Investors CEO Jim McCaughan, this shows that appetite for Shariah-based funds has shifted from purely domestic to cross-border financing.

Thus, he stressed that having a global fund platform will be important to facilitate international demand.

Managing non-performance

MALAYSIA: Kuwait Finance House Malaysia (KFH-Malaysia) has set up a credit control department for the purpose of remedial management of its non-performing financing (NPF) level.

In addition, it has introduced a tracking process for the segregation of quality assets and the restructuring of those accounts to prevent them from falling into NPF.

As of the 30th September 2009, KFH-Malaysia's NPF was at 6.73%, higher than the industry average of 2%.

Banking on common radar

MALAYSIA: The country is currently on the radar of investors, fund managers, Sukuk issuers and halal businesses from the Middle East.

Standard Chartered Saadiq chairman Shayne Nelson said this is due to the fact that Malaysia is home to a large Muslim population, a common ground shared with oil-producing Middle East countries.

Maiden Shariah funds

MALAYSIA: Reliance Asset Management (Malaysia) plans to launch its two maiden Shariah compliant funds.

The two funds — the quantitative Global Equity fund and an India Country fund — will be the first in a series of funds it is planning from Malaysia to target Islamic finance investors.

Oil pipe financing

BANGLADESH: The Islamic Development Bank has signed an agreement with Bangladesh to afford US$129 million of the US$140 million the country needs to build an oil pipe in the Bay of Bengal.

The project would save the country US$10 million annually over the cost for bringing ships to port, and further reduce fuel unloading time by 20%.

More products to come

MALAYSIA: OSK-UOB Islamic Fund Management (OSK-UOB IFM) plans to launch equity-based and Asean-centric Islamic financial products.

OSK-UOB IFM is the Islamic joint venture entity between UOB Asset Management and OSK-UOB Unit Trust Management.

It was recently granted the Capital Markets Services Licence by the Securities Commission of Malaysia to carry out Islamic fund management business activities.

GLOBAL

Gaining back its strength

GLOBAL: Dubai World's proposed restructuring of its US$23.5 billion debt has strengthened investor demand for Islamic bond offerings in the Gulf.

Mashreq Capital CEO Abdul Kadir Hussain said: "There is quite a bit of pent-up demand for Sukuk issuance. People were waiting to see how the restructuring of Dubai World was going to pan out."

Dubai World, one of the UAE's three biggest state-owned business groups, reached an agreement with its main creditor group to restructure its liabilities.

Peak performance

GLOBAL: The Sukuk is trading at its highest level in six weeks, prompted by financially-troubled firms reaching agreements with creditors to restructure debt, and the recovery of the global economy.

The Dow Jones Citigroup Sukuk Index closed at 120.50 on the 23rd June, matching its 6th May high for 2010 and leaving it 3.8% lower than the record set on the 25th November 2009.

CIMB-Principal Islamic Asset Management chief investment officer Zeid Ayer said: "That was a big boost for the global Sukuk market. Restructuring deals help to bring a lot more clarity to the situation."

Among the firms which are reported to undergo a debt restructuring process are Dubai World, which announced in November 2009 its plan to restructure US$23.5 billion of debt, and The Investment Dar, where its creditors have agreed to most commercial aspects of restructuring its debt.

Better fund option

GLOBAL: Malaysia's second finance minister Ahmad Husni Hanadzlah said Muslim economies should consider establishing a supra-sovereign wealth fund, given the shifting in investment fund flows to the East.

Ahmad Husni explained the fund can be used to invest in the combined Muslim economies of Asia, Middle East, Central Asia and Africa in the manufacturing, services, natural resources and portfolio investment sectors.

On the right track

GLOBAL: The global Islamic finance industry is estimated to reach the US$2 trillion mark in three to five years.

Islamic finance has however only reached less than 3% of the 1.6 billion Muslims globally.

Bank Negara Malaysia deputy governor Mohd Razif Abdul Kadir said there will be more focus and participation from Muslim nations in the next five years.

MIDDLE EAST

Growth for Tamweel

UAE: Islamic mortgage company Tamweel reported a net profit of AED5 million (US$1.36 million) for the first quarter ended the 31st March 2010 as compared to a net loss of AED41 million (US$11.2 million) for the same period last year.

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Operational profits in the first quarter was AED56 million (US$15.2 million) with prudential impairment provisions of AED51 million (US$13.9 million).

Islamic financing assets in the company constituted 88% of its total assets at AED9.95 billion (US$2.71 billion), while investment in real estate was limited to 5% of total assets.

Sukuk oversubscribed

BAHRAIN: The monthly issue of Sukuk Ijarah issued by the central bank on behalf of the government was oversubscribed by 300%.

The BHD10 million (US$26.5 million) issue received subscriptions worth BHD30 million (US$79.5 million).

The Sukuk, which matures on the 23rd December, has an expected return of 1.05%.

Outstanding returns

QATAR: Qatar Islamic Bank's (QIB) Global Sukuk Plus fund launched in March 2009 outperformed its benchmark by a margin of 7.8%.

Holders received a 10.63% return on their investments.

The fund is invested in global Sukuk markets and is traded weekly.

Still manageable

UAE: Despite the rise in impairments in the banking sector, the UAE should be able to manage its economic situations due to their strong capitalization, according to Fitch Ratings in its report.

The review covers Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates NBD, First Gulf Bank, HSBC Bank Middle East, Mashreqbank, National Bank of Abu Dhabi and Union National Bank.

Fitch added that funding and liquidity pressures remain for the banking system, with the average loan/deposit ratio for the nine banks remaining above 100% and, in some cases, above 120% (Emirates NBD and Abu Dhabi Commercial Bank).

The first half of 2010 has been difficult for the UAE's banks, with rising retail and corporate impairments; debt restructuring at Dubai government-related entities; reduced lending appetite; and stubbornly high loan/deposit ratios resulting in some stagnation in the sector.

Sukuk breakthrough

UAE: National Bank of Abu Dhabi's (NBAD) first Malaysian currency Sukuk issuance worth RM500 million (US$155.28 million) was oversubscribed by almost four times.

The transaction was distributed across a broad investor base with a split of fund managers at 48.3%, insurance companies 21%, financial institutions 19.9%, government agencies 8.6%, and other corporations 2.2%.

HSBC and Maybank are the joint arrangers for the five-year Sukuk with a coupon rate of 4.75%.

Next stop Ghana

UAE: Islamic banks in the country, all members of the Dubai Chamber of Commerce and Industry are keen to establish their banking operations in Ghana.

Atiq Juma Faraj Nasib, senior director of commercial services, said the banks are taking steps to attain regulatory approval to gain entry into the market.

(Also see IFN Report on page 10)

Exchanging mode

SAUDI ARABIA: Dar Al-Arkan Real Estate Development Company has swapped Sukuk worth US$225 million into floating-rate notes to reduce costs.

The move will reduce profit the developer pays on the five-year Sukuk to 7.95% above the three-month Saudi interbank rate, and lower their total average financing cost to 5.02%.

The firm sold the Sukuk priced at 10.75% in February to fund its expansion and declined to comment with whom the swap agreement was made.

Under one entity

UAE: Mashreqbank, the parent of Mashreq Al Islami, has merged its fixed income and equity management divisions into a single holding company — Mashreq Asset Management.

Previously, equity asset management services were provided by Makaseb, while Mashreq Capital functioned as a fixed income manager.

The merged entities will provide fixed income funds and equity assets investments products.

Creditors meeting

UAE: Dubai World creditors are still waiting for details of a meeting with the global holding company to present the final terms from its huge debt restructuring plan.

In May an agreement was reached with seven banks which together hold US$8.64 billion from the US$14.4 billion in bank debt the company owes.

Another meeting with other creditors not included in the May agreement was due to take place by the end of June.

Low risk Shariah products

BAHRAIN: Bahrain's banking sector has recovered faster than other countries in the region based on its Islamic banking products and services, said Gulf Finance House Group CEO Ted Pretty.

"Shariah compliant products do not have inherently higher risk compared to their conventional counterparts. In fact it is clear GCC investors want to now keep their money closer to home as they remain cautious about the value, supervision and level of stability being offered in Europe and the US," said Pretty.

He said western institutions need to respect the right of local investors to be able to select from Shariah compliant investment products and to be represented in the region.

He added that property and infrastructure will remain a key part of the GCC as the region continues to build and diversify its economies.

Islamic microfinance

BAHRAIN: Family Bank, a microfinance bank licensed by the Central Bank of Bahrain, has signed an agreement with Islamic

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banking consultant firm Eltizam to provide Shariah compliant financing facilities for the operation of micro-businesses.

Under the scheme, the bank will provide collateral free financing to customers ranging from BHD500 (US$1,326) to BHD7,000 (US$18,566).

KFH strives for higher profit

KUWAIT: Kuwait Finance House (KFH) is expected to post better results in its second quarter profit, compared to the first quarter of 2010.

To achieve its goal, KFH is currently focusing on projects in Saudi Arabia which exceed KWD100 million (US$343.5 million), in addition to its operations in UAE, Qatar and Oman.

The bank posted a 21.4% slide in its net profit to KWD30.9 million (US$106 million) in the first quarter of 2010.

Shariah banking grows

QATAR: The banking sector has maintained an annual growth rate of 38.4% during the last six years starting 2004.

According to Bahrain-based international brokerage firm TAIB Securities, despite the global economic crisis, the total Islamic finance assets have increased by 5.6% during the first quarter of 2009.

Signs of recovery

UAE: The Arab Monetary Fund (AMF) projects a 4% growth in Arab economies for year 2010 with a low inflation rate of 2%.

Director-general of AMF Jassim Al-Mannai said the financing sector in the Gulf economies remains slow as banks in the region endure shrinking margins and bad loans from the crisis.

Mannai added that Gulf banks have to practice prudent financing guidelines and to take more provisions in order to avoid potential pitfalls in the economy.

More Islamic offerings

UAE: Dubai Islamic Bank introduces three new account options, Al Islami 2-in-1 Account, Al Islami Current Account Plus and Al Islami E-Savings Account, to its diverse Shariah compliant product range.

The Al Islami 2-in-1 Account offers the convenience of checkbook and profits in one account. The Al Islami Current Account Plus is catered to salaried customers and provides a current account with no minimum balance requirement.

The third offering, Al Islami E-Savings Account, is a savings account that can be managed online.

Amendments to laws

UAE: A committee tasked with exploring a unified banking and finance law held its first meeting this week to amend two federal laws governing the Central Bank of the UAE.

The first law concerns the banking architecture in the UAE, the central bank and the country's monetary system, while the second one deals with Islamic financial institutions in the country.

The committee will oversee the amendment process and efforts to merge the two laws into a single piece of legislation. It will also seek to address the loopholes in the UAE's financial and banking system.

Options abound

UAE: The country may follow in the footsteps of Malaysia, Bahrain and Indonesia in selling short-term Islamic securities as legislators consider establishing a local debt market, according to financial services firm Royal Capital.

Its head of portfolio management Ahmed Talhaoui said, Islamic bills would provide more investment options to Islamic banks, which currently deal with a lack of options in liabilities.

This has led some Shariah banks to match short-term liabilities with investments in Sukuk, which have longer maturities.

Oversubscribed four times

BAHRAIN: The Central Bank of Bahrain's monthly issue of short-term Sukuk Al-Salam has been oversubscribed four times.

It received BHD48 million (US$127 million) for the BHD12 million (US$32 million) issue, which has an expected return of 0.88%.

ASIA

Partnership for more distribution

MALAYSIA: Prudential BSN Takaful (PruBSN) has signed a MoU with Affin Islamic Bank to broaden its market reach for its Family Takaful products by tapping into the latter's customer base.

The five-year collaboration plan was part of PruBSN's strategies to build up its distribution capabilities in the Family Takaful sector.

PIDM proposes cover limit

MALAYSIA: Perbadanan Insurans Deposit Malaysia (PIDM) has issued a consultation paper on the proposed Insurance Compensation Scheme for public feedback.

A key component of the consultation paper is the proposed limit and scope of coverage for Family and General Takaful plans, conventional life and general insurance policies to be protected by PIDM.

Armed with Takaful

BRUNEI: Insurans Islam TAIB has signed a MoU with the Royal Brunei Armed Forces (RBAF) to provide a three-year Takaful protection plan to RBAF's members against accidents in Brunei and overseas.

The coverage will also provide financial benefits in the event of death or permanent disability that deters RBAF personnel from performing their duties.

MIDDLE EAST

Apex gets Takaful

BAHRAIN: Allianz Takaful has signed an agreement with Apex Real Estate Development Company to provide medical insurance to Apex employees and their families.

Under the agreement, Allianz will provide Apex staff full medical coverage of more than BHD490,000 (US$1.3 million) besides worldwide emergency medical treatment. Allianz Takaful is a subsidiary of Allianz Group.

Coverage for cash

UAE: Abu Dhabi Islamic Bank (ADIB) has launched the Cash Cover Takaful Service which provides coverage for financial loss and emergency medical expenses.

Under the plan, a coverage of up to AED100,000 (US$27,225) will be provided to customers if they lose money that was withdrawn within 100 meters of any of the ATMs or bank's branches in the country.

The Cash Cover Takaful Service is provided for ADIB customers for free until the end of August 2010.

Takaful regulations

UAE: The ministry of economy has issued a law on the Takaful system to regulate the work of Takaful firms in the country, the first of its kind to be approved in the Arab region.

The new law determines the jurisdictions of the Shariah control committee in Takaful firms and its relations with company boards and the insurance authority.

RATING NEWS

ASIA

Upbeat prospects

INDONESIA: Moody's Investors Service has upgraded the outlook on Indonesia's 'Ba2' local- and foreign-currency sovereign ratings to positive.

This was based on expectations of a more stable financial policy and improvement in the government's finances.

The positive outlook also applied to Indonesia's foreign currency bond ceiling and 'Ba3' foreign currency deposit ceiling.

MIDDLE EAST

SAIB still standing strong

SAUDI ARABIA: Fitch Ratings has affirmed The Saudi Investment Bank's (SAIB) long-term Issuer Default Rating (IDR) at 'A-' with a stable outlook. It has also affirmed SAIB's short-term IDR at 'F2', Individual Rating at 'C/D', Support Rating at '1' and Support Rating Floor at 'A-'.

The rating is attributed to the high probability of support from Saudi Arabia's authorities in case of need, given the regulator's strong history of support for local banks as well as the government's (rated 'AA-') 38.8% stake in SAIB via related entities.

SAIB is involved in Islamic banking.

Firm standing

JORDAN: Fitch Ratings has affirmed Cairo Amman Bank's support rating at '3'.

The affirmation is attributed to the bank's good domestic franchise, with a focus on retail and public sector business, its systemic importance and the authorities' supportive stance towards the domestic banking sector. Cairo Amman Bank has three Islamic branches in the Palestinian territories..

Pillar of support

KUWAIT: Fitch Ratings has affirmed Gulf Investment Corporation's (GIC) long-term Issuer Default Rating (IDR) at 'BBB' with a stable outlook, short-term IDR 'F3', Individual 'D/E' and Support '2'. GIC's IDRs are based on the high probability of support from its six sovereign shareholders, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE, if ever required.GIC owns the Gulf Islamic Equity Fund.

Big hopes with little regulation

BANGLADESH: Despite being introduced in 1983, Islamic banking in Bangladesh is yet to reach a level reflective of the opportunities that are available for the Muslim nation.

After 27 years, there are seven private commercial banks (PCB) operating as fully fledged Islamic banks through 429 branches. In addition, there are 20 windows opened by nine conventional banks providing selected Shariah compliant banking products and services. As of June 2009, the total financing of these banks stood at BDT434.4 billion (US$6.25 billion) against the deposit base of BDT464.4 billion (US$6.7 billion).

The sector lacks a comprehensive and separate Act to govern and develop the Shariah compliant financial industry. If enhancements took place in the areas of trained personnel, training institutions and the setting up of an Islamic inter-bank money market, analysts and industry practitioners see a potential increase in the penetration of Islamic banking by 80%.

Islami Bank Bangladesh (IBB) deputy managing director Habibur Rahman said: "There is no separate Islamic banking Act in Bangladesh. We need an Islamic inter-bank money market. These are some of the key areas that need to be developed."

Shah Nur Quayyum, the finance and private sector development officer for South Asia at the World Bank said "Currently the Shariah compliant banking industry is governed by guidelines for conducting Islamic banking, which was published in November last year. In addition, various banking circulars differentiating Islamic banking from conventional banking practices were issued. However, the World Bank has highly recommended regulators to have an Islamic banking Act that defines the areas for improvement and supervisory guidance."

Prime Islami Bank senior vice president for Islamic banking division Abu Zafra Mohamed Sheikhul Islam said that although the potential is high, further development can only be achieved with improved governance. "The guidelines for conducting Islamic banking introduced by Bank Bangladesh could be the first step taken to address the issues and to develop the sector. Compared to conventional banking, the Islamic banking penetration levels are as low as 15% to 20%. This leaves huge scope for development. An Islamic money market could be an important factor in this process," he said.

As of mid 2008, Bangladesh is estimated to have a population of 160 million. Out of that 40% were living below the international poverty line. During the last ten years the country has managed to improve its GDP ratio from 4.6% in 1998 to 6.2% in 2008. It is expected to maintain an average growth rate of 5.7% till 2012. According to analysts the growth during the last 12 months was driven by consumption and high public development expenditure. With most of the local banks providing microfinancing products and services for the needy, improvements in Islamic banking regulations are expected to increase the SME contributions to the GDP.

However, Bank Bangladesh deputy governor Murshid Kuli Khan who is satisfied with the current level of regulations governing Islamic banking and finance said: "We believe that regulations are adequate. We are happy about the level of development achieved in Shariah compliance financial sector in the country. The new Act is under consideration and will be implemented."

Low demand delays Islamic banking licenses

MALDIVES: Based on the low demand for Shariah compliant banking products in the islands, the Maldives Monetary Authority (MMA) has taken little interest in the last two decades to issue Islamic banking licenses. However, in assessing the possibilities to exploit this maiden market, two foreign applicants have recently extended their requests seeking regulatory approval to set up Islamic banks.

The applicants – a multinational institution and a UAE company – are looking at establishing Islamic banks as public private partnerships with the government of Maldives. An MMA spokesperson told Islamic Finance *news* that the two applications are being reviewed but would take time to reach a decision. "The demand for Islamic banking products is low in the Maldives. But these two applicants are looking at exclusive Islamic banking licenses, which MMA is not interested to issue," he said.

There are six banks in Maldives comprised of five foreign and one local engaged in conventional financial services. Some of these foreign banks have Shariah compliant banking products and services in other countries but are hesitant to offer the same in the archipelago due its unclear demand pattern.

The Bank of Ceylon (BOC) established its branch in the Maldives almost 28 years ago providing conventional banking facilities. BOC country manager Chandra Kumara told Islamic Finance *news* that other than foreign currency exchange services Maldivians are interested in import and export instruments that are included in conventional banking services.

"We conducted a pilot project to assess the demand for Islamic banking products. The response was poor," said Kumar. However, BOC has Islamic banking in Sri Lanka and we can extend Shariah financial services to the Maldives if any demand is visible as they have the necessary infrastructure and trained staff.

Tourism is the main source of employment in Maldives. It accounts for almost 30% of the GDP and remains the single largest source of foreign income earnings. In 2009, tourism accounted for 60% of the country's foreign income. There are 89 resorts in the Maldives visited by an average 600,000 tourists per annum creating a favorable environment for foreign currency exchange services. Banks as well as individuals are known to reap benefits from the foreign currency transactions rather than on Islamic banking and finance.

The fishing industry contributes over 15% of the GDP and remains the second largest foreign exchange earner. With no farming lands available, much of its food is imported from Sri Lanka and other regional countries. The industrial sector accounts for 7% of the GDP consisting mainly of garment production, boat building and handicrafts. This allows the five foreign banks to thrive in import and export commission earnings.

HSBC Maldives in response to Islamic Finance *news* confirmed that it has no Islamic banking products or services in the country and has no plans to offer them in the near future. However, Amana Takaful director and CEO Ehsan Zaheed shared a different view. "Amana was the first to tap Maldives with Takaful. When we entered the market it was dominated by conventional insurers. We have performed well and achieved better returns. We hope this will be the same with Islamic banking since the potential is there," he said.

Reports by Ashwin Hemmathagama

Islamic microfinance to kickoff soon

GHANA: Out of a population of 23 million, only 1.2 million are banking with the 27 conventional banks in the country. It has relatively little knowledge and experience on Islamic banking, and Shariah compliant financial regulations are non-existent. Ghana Islamic Microfinance (GIM) taking the cue to eliminate harmful loan practices in the country is looking forward to launch its Shariah compliant financial services in September this year.

However, GIM is yet to receive approval from the Bank of Ghana for a license to fully operate as a full microfinance company. In fact, GIM will commence its services as a non-governmental project through Edikanfo Progressive Foundation so there is no immediate necessity for any form of clearance or licensing and regulation.

GIM chairman and CEO Kwaku Yamoah Kyei told Islamic Finance *news* that the regulatory framework is expected to be completed in due course and will pave the way for Islamic finance in the country while eliminating malpractices. "GIM activities will remove the modern-day Shylocks seeking opportunities to exploit the poor," he said.

Based on Ghana's banking sector and its prevailing drawbacks, GIM has developed three flagship products Haj savings scheme, emergency financial assistance and an anti-Shylock financial facility. The anti-Shylock financial facility is the first of its kind. It is set up to bailout troubled borrowers by repaying their loans that are already exposed to risky terms and conditions, in addition to high interest rates. GIM expects to support Muslims as well as non-Muslims using these few products and a seed fund of US$5 million.

"We trust GIM's assistance will help poor Ghanaians to start businesses and create more employment opportunities for the needy," added Kyei.

A spokesperson for Bank of Ghana told Islamic Finance *news* that GIM's application is under evaluation and the decision will be made "for the betterment of the county's banking industry".

Other than the underdeveloped Islamic banking and finance sectors in the country, Ghana is yet to recover from financial instability. According to the World Bank, this sub-Saharan country was bankrupt with a 20% budget deficit reported in 2008. As a result of multiyear fiscal stabilization program and several other prudent measures adopted by its new government, the budget deficit was reduced to 9.7% last year. However, the analysts are expecting the real GDP growth to be less than 4% compared to previous estimates for 2009.

During the first quarter this year, the International Monetary Fund declared Ghana as being on track to meet its fiscal targets based on its improved fiscal performance. However, the infrastructure development, agriculture and private sector development are key areas, which still need governmental assistance. Based on this high potential some UAE based Islamic financial institutions channeled through the Dubai Chamber have expressed their interest in setting up Islamic banking and finance operations in the country. "But they need to get regulatory approval first," explained Kyei.

World Bank lead economist Sebastien Dessus told Islamic Finance *news* that the country's entire banking sector needs a boost. "Prior to establishing Islamic banking it is essential to manage the fiscal deficit, reduce interest rates and manage the numbers of non-performing loans. The government is fixing these problems but it will take time to recover," he said.

By Ashwin Hemmathagama

Establishing A Haj Fund In India

By Zafar Sareshwala

Islam, in simple terms, means "submission to the will of God (Allah)" and obedience to his law. The religion in itself is extremely wide, encompassing broad areas of thought, and touches upon various facets of human life. It is the second-most popular religion in the world. The total population of Muslims across the world is somewhere around 1.6 billion and for India, the figure comes close to 160 million, making it home to 10% of the total world Muslim population.

Islam is extensively followed not only on account of its universal appeal, but also because the holy Quran lays down an extensive discourse which is logical, reliable and cohesive in its teachings. The five pillars of Islam, namely, Shahadah (profession of faith), Salat (prayers), Sawm (fasting), Zakat (charity) and Haj (pilgrimage to Mecca) are basically the five duties incumbent on every Muslim.

The pillars touch upon the daily life of a Muslim and every Muslim, throughout his or her life, tries to work in line with these guidances with the final aim of making the pilgrimage to Mecca. The Haj is mandatory for both male and female but it is obligatory only on those who are physically and financially capable of performing the journey. Thus, along with the physical capability, Haj also requires Muslims to save money for the same as the pilgrimage entails substantial expenditure on travel, accommodation and such.

In India, the entire process of Haj is regulated by the Haj Committee of India (HCI). The number of Indian pilgrims undertaking Haj every year has gradually increased from nearly 110,000 in 2002 to over 160,000 in 2009. To this, the Government of India has been paying a Haj subsidy every year. The Haj subsidy has gone up substantially over the years from INR200 (US$43 million) in 2004 to INR941 (US$202 million) in 2009.

Critical review of Haj practices in India

Haj subsidy is considered un-Islamic

The subsidy provided by the Government of India for the Haj pilgrimage, which was to the tune of INR941 (US$202 million) in 2009, is considered by some as un-Islamic. Muslim intellectuals have pointed out that any subsidy for Haj goes against the spirit of the Shariah. They say Haj is a religious duty only for those who can afford it and that the pilgrimage may not be 'accepted' if money spent on transport to reach the holy sites and on food is not pilgrim's own money. In fact, India is the only country to provide a Haj subsidy. Even Pakistan discontinued Haj subsidies to pilgrims after a 1997 court ruling said that any expenditure defrayed by the government was contrary to the Shariah.

Use of interest based investments

Haj is considered to be the ultimate sacred worship among Muslims and Islam as a religion is totally against the use of interest based methods in the investment of money. Still, the money collected from Hajis (persons who have undertaken the Haj) by the HCI is kept in the State Bank of India (SBI) where it earns interest that supports the administration activities of HCI and is a source of income for the bank. The HCI collects over INR700-800 (US$150-172) from the Hajis and the same hard-earned money saved by Muslims for Haj gets invested in interest earning modes of finance. Therefore, in India we see that an investment method completely against the teachings of Islam is being used to finance one of the most sacred events in Islam.

Compulsion to travel via Air India

Opting for the Haj subsidy stops the pilgrims from flying in private airlines, some of which offer better packages, at much cheaper rates. In 2009, an approximate 160,000 Indian Muslims undertook Haj and, of these, around 45,000 went via private tour operators. Now, the Haj subsidy offered by the government is given only to those who travel through HCI and is provided only on the Air India flight tickets. Hence, pilgrims travelling by private tour operators do not get any Haj subsidy benefit.

So, by simple calculation, if the government offered a subsidy of around INR941 (US$202 million) to Air India in 2009, then Air India's air ticket prices to Jeddah must have cost around INR82,000 (US$1,762) per passenger. (Assuming the number of passengers travelling via Air India is 115,000, the rest totaling 45,000 travel via private tour operators). In comparison, a round trip to Jeddah generally should not cost more than INR30,000-35,000 (US$644-752).

In addition, the services provided by Air India have been highly criticized with inefficient carriers being deployed for Haj travel and incidents of delays in flight having been reported by pilgrims. There is a growing opinion that Haj flight operations and the subsidy are indirectly helping to keep the sagging economy of Air India afloat.

HCI lacks operational autonomy

HCI faces a number of restrictions of its own, thus its powers are highly limited. It is required to go to Air India only for the transportation of Hajis. The organization does not hold any power to call for the opening of a tender in order to invite applications from other airlines for Haj transportation. It cannot go to any other bank except for SBI for depositing the money received from Hajis. It cannot approach any of the stock exchanges for investing the money received from Hajis in Shariah compliant stocks.

Malaysian Haj model, Tabung Haji

Malaysia has put in place a special institution only for the purpose of organizing and managing Haj. It established the first Islamic financial institution, Lembaga Tabung Haji, in 1969 whose objective was to mobilize savings of Muslims intending to perform the Haj, with the pool of savings being invested in Shariah permissible instruments. Tabung Haji invests in its Shariah compliant subsidiaries in order to earn a profit on the investment made in its Haj fund.

The people in Malaysia are encouraged to start investing early, akin to the special programs for children who start investing in the fund from school itself. Under the Malaysian model, each prospective pilgrim contributes money towards Haj travel to a Shariah compliant corpus of fund, something like India's Public Provident Fund.

Replicating the Malaysian model in India

It is about time that the Indian government accepts and implements a new model for Haj on the lines of the Malaysian model of Tabung Haji. There is a growing need among Muslims for the adoption of a new and improved system that can manage the entire Haj process and the money involved therein. In our opinion, the entire Haj system needs to be revamped and privatized in order to enable system efficiency and

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Establishing A Haj Fund In India (continued)

transparency. The cost of the Haj pilgrimage will be reduced if the government puts the Haj affairs under an autonomous body.

There is a general belief among the Muslim community that the Shariah prohibits investment in the equity market. However, the law only requires one to follow a set of guidelines in order to keep the investments pure and compliant. A person can lawfully invest in the stock market by purchasing the shares of only those companies which are engaged in halal business and where the financial ratios and capital structure of the business are within pre-determined compliance limits. The observance of Shariah compliance not only makes the investment lawful with regard to religious beliefs, but also excludes companies that are financially unstable.

A number of indices are successfully operating in line with these conditions and cover stocks only in those sectors which are compliant like the S&P CNX Shariah index (tracking companies listed on National Stock Exchange), Parsoli Islamic Equity (PIE) Index and Dow Jones Islamic Market India Index (both tracking companies listed on the Bombay Stock Exchange). Some of the compliant sectors include automobile, pharmaceuticals, retail, power, oil and gas, information technology, fast moving consumer goods and such.

The ability of the Indian stock market to offer Shariah compliant companies for investment can be gauged from the fact that out of all the companies on the BSE500 Index, nearly 200 companies are compliant. A look at the returns from Indian stock market indices shows that while non-Islamic indices like BSE Sensex and S&P CNX Nifty have shown a return of around 48% over the last four years, an Islamic index like Parsoli Islamic Equity (PIE) Index gave a return of 49% during the same period. This shows that, even while investing in-line with their religious beliefs, investors do not miss out on earning returns in the stock market.

Key benefits of a Haj Fund

Attracting investments from the Indian Muslims rather than granting subsidies

A new Shariah compliant institution that has a Haj fund would attract money from all the Muslims who seek to save money for Haj. Malaysia has approximately 13 million Muslims; we have 160 million. Even if 10% of our Muslim population contributes merely INR500 (US$10) in the Hajj fund, we will have INR 8,000-9,000 (US$1.7 billion) every year readily available as investment corpus!

Systematic investment

A fund dedicated towards attracting and managing the money for Haj would become a mode of systematic investment for the millions of Muslims enabling them to plan in advance for Haj. Most of the Muslims, due to their limited earning capacity and resources, are not able to save side-by-side for Haj. So when the time to undertake Haj actually arrives, they have to sell out their property or their other assets.

This creates an undesirable pressure on their families and even on their life post-Haj. A Haj fund will allow these people to plan in advance and save methodically.

Solution to the problem of subsidy

A Haj fund in place can systematically invest in Shariah compliant equities to generate income and the need for the subsidy itself would not remain anymore. Whatever the fund may earn, the same can be distributed among all the members of the Haj fund and can be used for the administrative activities of the Haj institution. In this way, the Haj model could become self-sufficient to support its own activities as well as earn profit for its members.

Respect to religious sentiments of the Muslims

The current structure in place for the Haj is flawed in the sense that the money collected for Haj gets invested in interest earning products, an action completely contrary to the teachings of Islam.

The formation of a Haj fund would give due respect to the sentiments of all the Muslims who work throughout their lives in order to save money for the Haj.

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An Indian Perspective of the Islamic Finance Industry

By Ali M Shervani

Trade and business relations between India and Arab world are ancient and Islamic influence in India can be traced back to the 7th century with the arrival of the Arab traders on Indian shores of Kerala in the Malabar region.

At present India is home to one of the largest Muslim population in the world with approximately 160 million people. The community became somewhat marginalized after Independence, but the advent of economic liberalization in India since 1992 brought back the benefits of economic development to the community once again.

India has always been a big learning center for Islamic studies, and scholars from India have enjoyed authority across the Muslim world. The early efforts in the arena of Islamic finance can be traced back to the academic works done by Dr Mohammad Nejatullah Siddiqi, Dr Ausaf Ahmad and others in late eighties. Many scholars trace their knowledge to the great Islamic learning centers of Dar Al Ulum in Deoband and Nadvat al-'Ulama in Lucknow. Some individuals were successful in catalyzing the development of Islamic banking. Iqbal Khan was responsible for making Islamic banking a household name by spearheading HSBC's foray into Islamic banking.

Early initiatives that were carried out in India could not keep pace with the regulatory changes for non banking financial companies (NBFCs), resulting in the closure of these initiatives. Also, the market dynamics pressured these organizations; they did not reinvent themselves resulting in closure of such Islamic finance initiatives.

The TATA group was the first to sense the Indian Muslim community's need for Shariah compliant investment options. In 1998 the Tata Mutual Fund started Tata Select Equity Fund was the closest Shariah compliant investment option till 2007.

Up until 2007 the Shariah compliant investment options available were from small companies that did not have global acceptance. The Shariah screening process in India was also in a nascent stage.

The year 2007 was an important year in the Indian Islamic finance industry as institutional efforts from global players enabled and provided advanced forms of investment products like Shariah compliant ETF's possible. Benchmark Asset Management played a very important role by launching "Shariah BeES" an index fund based on "CNX Nifty Shariah Index" as the underlying index.

The launch of S&P CNX Nifty Shariah and CNX S&P 500 Shariah benchmarked against CNX S&P Nifty and CNX S&P 500 gave investors a chance to invest in Shariah compliant companies on a broader level. The Shariah indices mentioned above are benchmarked against two main indices on National Stock Exchange (NSE).

The market capitalization of S&P CNX Nifty Shariah Index is INR2319 billion (US$50 billion) on the 31st March 2010 whereas the market capitalization of S&P CNX Nifty which is the underlying index is INR33000 billion (US$707 billion).

NSE since the time it started operations used technology to take shares trading to the mass level has one of the largest number of trading terminals in India, and is moving towards becoming one of the largest exchange in Asia.

Some Indian companies are also part of the S&P's Asia Shariah Index. This proves the interest in Indian companies and economy is growing at a greater pace than before.

DowJones also launched the Shariah compliant Dow Jones Islamic Market (DJIM) India Index, licensed by HSBC Asset Management India in order to cater to the needs of actively managed portfolios of its investors.

> "The Security Exchange Board of India (SEBI) has played a major role in facilitating Islamic finance in India, by allowing asset management companies to launch Shariah compliant investment schemes. SEBI also approved India's first Islamic venture capital fund"

The arrival of Islamic banking, establishment of Shariah Indices across the globe created a new wave of Islamic finance, resulting in voices being raised in India for developing Islamic finance. The launch of indices helped the asset management companies launch schemes benchmarked against these indices. CNX S&P Nifty Shariah was used to benchmark India's first Shariah compliant ETF (Shariah BeES) by Benchmark Asset Management.

Shariah index have provided investors with options to invest in Shariah compliant stocks listed on NSE or in the schemes benchmarked against such indices. The Shariah indices are monitored on a regular basis to ensure the companies listed adhere to the provisions of Shariah.

The Indian Islamic finance market has plenty of opportunities; companies just need to come out with the relevant products in order to tap the market.

The Indian equity market investments offer a lot of permutations and combinations for Shariah compliant investments, the robustness in the Indian economy makes investments in equity more attractive. The strict regulatory framework which governs the Indian stock markets also provides a conducive atmosphere for both domestic and foreign investors.

The Security Exchange Board of India (SEBI) has played a major role in facilitating Islamic finance in India, by allowing asset management companies to launch Shariah compliant investment schemes. SEBI also approved India's first Islamic venture capital fund. Such regulatory permissions are facilitating the growth of Islamic finance.

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An Indian Perspective of the Islamic Finance Industry (continued)

This slow and careful approach of the regulators is aimed at ensuring that companies which launch Islamic finance products adhere to applicable laws. This also helps to ensure the safety of investors' money and reinforce the credibility of the industry.

The Reserve Bank of India (RBI) has also shown some inclination towards incorporating certain guidelines for NBFCs to facilitate Islamic finance options. NBFCs are another possibility for companies that are looking for avenues to cater to the needs of Islamic finance in India. This will help the Muslim community to invest money which otherwise sits idle into productive ventures – not a current possibility due to lack of regulatory facilitation.

The combination of a strong regulatory framework and big financial companies will definitely bring a big boost to the growing Islamic finance industry in India. Islamic finance will only be successful if carried out under such regulatory framework, as some fly by night operators have resulted in a bad name for Islamic finance.

The Islamic finance industry will not only open doors to the idle funds from the Muslim community in India, but also from the foreign investors. The industry will also help the marginalized section of the community when the microfinance institutions adopt Shariah principles.

To keep the Indian economy growing, the requirement for investments in infrastructural projects is huge. This area alone can be a big source of investment for foreign Islamic finance institutions. India also requires huge numbers in terms of housing projects for its ever growing population and Shariah compliant housing projects are another big avenue for not only Islamic financial institutions but also construction companies both domestic and foreign.

Advantages for Islamic finance industry in India

Apart from Shariah compliant investments, venture capital funds, index funds and such, India is offering other services which can fuel the global growth of the Islamic finance industry.

The Indian software industry was one of the first industry vertical to tap into the demand for Islamic banking software. Islamic banking software is running within IFIs across the globe to provide services to the investors and clients. Information technology (IT) giants like Infosys, Tata Consultancy Services and others launched Islamic banking software for the Islamic banks. Indian IT companies have enabled Islamic banks to provide more transparent services and technologically advanced investment options to their customers. This has helped Islamic banks in providing anywhere, anytime banking services to its customers.

The availability of graduates from the Madarasahs can provide a research and development facility for the Islamic finance industry. This can cut down on costs for effective Shariah screening processes and the launching a Shariah compliant fund.

India also offers large pool of manpower which is well versed with Arabic both spoken and written. When deployed, this will help IFIs in the Middle East to cut costs for their back office operations. This manpower can also be utilized by the BPO industry which already is providing back office support to global giants in almost all industry verticals.

Indian business process outsourcing agencies have revolutionized cost cutting measures; this expertise too can be utilized to cater to the growing needs of the Islamic finance industry. In conclusion, strong Islamic finance products from large domestic and foreign companies, with regulatory guidance in India, will contribute greatly to the growth of IFIs not only in India but also globally.

The main advantages/opportunities India offers for the development of Islamic finance are:

- one of the largest Muslim population of 160 million
- one of the highest saving rates across the globe
- a big market for investors looking at ethical investment options
- an economy growing at an average of 8% per annum
- home to a large number of English speaking people
- a global software industry hub
- a sizeable population of Madrasah graduates well versed with Arabic language and Islamic laws
- back office facilities for global Islamic finance and banking companies
- a robust BPO industry well equipped to cater to the requirements of the Islamic finance industry by creating another vertical in their existing portfolio of services
- a pool of Waqfs land and property which can be utilized for funding of microfinance initiatives for the upliftment of the weaker section of the Muslim community
- Haj fund can be created for the benefit of the community

The advantages India offers to the global Islamic finance industry are huge, and most of them can be utilized within the existing legal framework. Though, some initiatives can take place once the government incorporates certain changes in the existing laws to accommodate Islamic finance in India.

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The Meaning of Ratings for Islamic Financial Institutions

By Anouar Hassoune

Islamic financial institutions (IFIs), like conventional banks, act as financial intermediaries, transforming the characteristics of the financial inflows they capture, as part of their funding strategies, into Shariah compliant placement, financing and investment instruments.

However, Shariah compliant asset classes managed by IFIs may sometimes differ from those of conventional banks, not so much in their economic substance, but more in their financial form. Indeed, Islamic banks and those essentially conventional financial entities that offer Islamic services must abide by a series of rules and principles without which a transaction would not be deemed to be in line with financial Islam.

Moody's assigns ratings to financial institutions globally, irrespective of their form or nature, and that includes IFIs.

IFIs face a number of challenges stemming from the accelerated pace of their successful inclusion within more competitive and interrelated, if not integrated, financial markets across borders. For financial intermediaries globally, robust governance, enhanced transparency, consistent communication, sufficient credibility, fortress reputation, financial flexibility, swift access to diversified funding sources, and strong liquidity have become of utmost importance. Such endeavours are more vital now than ever, and emerging markets and IFIs are no exception.

Moody's credit ratings reflect the rating agency's independent, globally consistent and recognised opinions on the relative creditworthiness of securities and issuers. Moody's can play a role in helping IFIs achieve such demanding goals and assist as they further establish themselves in the mainstream financial industry, not only at home but also beyond the natural borders of the Muslim world.

It should be noted that Moody's analysis does not extend to forming an opinion on whether or not a transaction, a security, or an issuer, is in compliance with Shariah law, and therefore credit ratings should not be interpreted as addressing this issue per se.

> "IFIs face a number of challenges stemming from the accelerated pace of their successful inclusion within more competitive and interrelated, if not integrated, financial markets across borders"

Different ratings to address categories of IFIs' liabilities

Overall, the rating process for assigning ratings to IFIs and to the various classes of their funding instruments does not materially differ from that which is applicable to conventional banks. The criteria and methodology used by Moody's to form its credit opinions on financial institutions globally are flexible enough to encompass the subtle characteristics of Islamic banks, and the differences they may display in terms of their funding structures.

IFIs liabilities differ from traditional funding mechanisms

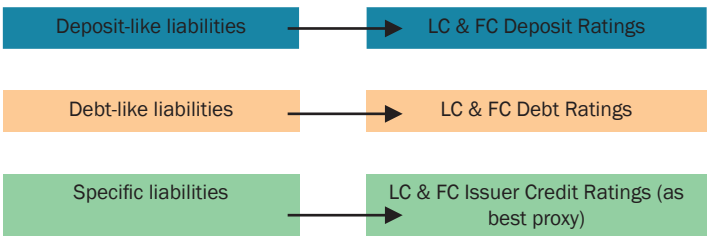
For funding, IFIs raise non-remunerated current accounts and sight deposits, term deposits from customers (usually in the form of commodity-based buy-and-sell Murabahah contracts), profit-sharing investment accounts (PSIAs) and Sukuk.

Deposit-like funding instruments are subject to our local and foreign currency deposit ratings, like any other deposit-taking financial institutions. Deposit ratings reflect Moody's opinion on the probability that an IFI would lack the capacity or willingness to honour, in full and on time, its obligation towards depositors. This means paying back principal to current account holders and sight depositors on demand, and paying back both principal and profit share to term Murabahah depositors at maturity.

However, PSIAs and Sukuk attract a more specialized treatment. For both categories of liabilities, credit ratings may have different meanings, as summarized in the graph below and further made explicit in the following sections.

Simplified Balance Sheet of an IFI

ASSETS	LIABILITIES
Cash and quasi-cash	Nonremunerated current accounts (Qard Hasan)
ST interbank Murabahah placements	ST interbank/customer Murabahah deposits
Investment Sukuk	LT Murabahah borrowings (syndications)
Other investments	Issued Sukuk (senior/subordinated)
Credit portfolio	Profit-Sharing Investment Accounts (PSIAs)
Participations (Musharakah)	Profit Equalization Reserves
Fixed and other assets	Equity
IFIs' liability categories	Moody's rating treatment



PSIAs, default and credit ratings

PSIAs are the combination of Musharakah and/or Mudarabah contracts. A Musharakah is a co-ownership contract whereby the IFI and the customer together hold the ownership of a range of asset classes. A Mudarabah is a contract whereby the IFI, as Mudarib (investment manager) manages a range of asset classes on behalf of the Rab al Maal (the customer who provides the funds to be invested).

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The Meaning of Ratings for Islamic Financial Institutions (continued)

IFIs offer two classes of PSIA: restricted and unrestricted. The first category, restricted PSIAs, includes off-balance sheet Mudarabah investment accounts whereby the investor (the customer of the IFI) agrees to clearly identify the assets under the IFI's management. In this case, the IFI is remunerated with a Mudarib (management fee), and restricted PSIAs resemble more assets under management than funding instruments for the bank, thus subject to Moody's fund ratings rather than credit ratings.

Unrestricted PSIAs, on the other hand, are on-balance sheet funding instruments with, in theory, loss-absorbing features. They are based on both Musharakah and Mudarabah agreements between depositors collectively and shareholders, who jointly commingle funds subsequently allocated into the IFI's various asset classes (the Musharakah component) with those assets then managed by the bank on behalf of unrestricted PSIA holders (the Mudarabah component).

From an analytical perspective, Moody's does not classify PSIAs as equity-like liabilities, despite their theoretical loss-absorbing characteristics. PSIAs are rather considered as more debt-like liabilities. The rationale behind this analytical treatment of PSIAs as liabilities with no capital benefits is that, from an economic and practical perspective, PSIAs:

- are not permanent capital, as they tend to be very short-dated (with maturities typically below one year);
- can be withdrawn before maturity, provided that the PSIA holder gives up his or her contractual return to be earned at maturity;
- have no voting rights; and
- in practice, are very rarely allowed to absorb losses.

Unlike deposit-like funding instruments of IFIs, which the IFI guarantees, there is no such guarantee for unrestricted PSIAs: the IFI is not committed towards an identified rate of return on the PSIAs, and may not pay back the full principal amount should the IFI register a loss during the period the PSIA is held by the investor.

Therefore, a negative return on PSIAs would not be considered per se as default by Moody's. Negative returns on PSIAs might be registered without any breach of the contractual obligations due by the IFI to PSIA holders.

Default in case of negative returns on PSIAs would be recognised only in the case of proven misconduct or negligence, as assessed by the IFI's Shariah supervisory board. Default in case of negative returns on PSIAs would also be recognised by Moody's if the IFIs fails to pay back to PSIA holders the fair amount due to them after the loss is recorded.

For example, assume that a PSIA is worth US$100 at the beginning of the period, say a quarter. Because of a quarterly loss, the PSIA is worth only US$95 after three months. If the IFI were to pay back less than US$95 to the PSIA depositor, the IFI's obligation towards its customer would not be met and default would be recognized.

In any case, default on individual PSIAs, defined as breach of any contractual obligation, would in practice be difficult to trace. Consequently, PSIA holders, particularly wholesale fund providers, should refer to the IFI's issuer credit ratings as an overall assessment of its creditworthiness.

These ratings also take into account the so-called 'displaced commercial risk' to reflect the risk of massive and severe withdrawals of PSIA funds should returns on such instruments fall materially below expectations or benchmark profit rates, or even be negative. PSIA withdrawals, if sudden and material, would trigger liquidity pressures on the IFI's balance sheet and increase its probability of default.

To manage displaced commercial risks, IFIs tend to set aside investment risk reserves against expected losses on their portfolios of managed assets, as well as profit equalization reserves to cater for unexpected losses, and thus smooth returns to be served to PSIA holders across the cycle.

In short, at this stage Moody's does not capture in its credit ratings any form of 'soft default', such as the incapacity of an IFI to serve a positive and competitive return on PSIAs, in line with PSIA holders' expectations. This is an aspect of what ratings might ultimately mean going forward that Moody's would be inclined to explore and more extensively discuss with rated banks, regulators and standard-setting bodies active in the Islamic financial industry.

Moody's approach to rating bank Sukuk summarized

The key distinction Moody's makes when looking at corporate and bank Sukuk is whether they are asset-backed, or asset-based via a repurchase undertaking. In other words, do Sukuk holders rely on the assets themselves, or on the ultimate originator for repayment?

While the term 'asset-based' may imply some security or claim over the assets, this is usually not the case, and therefore the credit ratings on the Sukuk are the same as those on the IFI issuing the Sukuk, further emphasising the importance of issuer credit ratings in this case.

Due to the nature of Sukuk, all transactions are likely to involve a set of underlying assets. Both parties — the issuer and the investors – share their risks in the transaction. Where investors enjoy asset-backing, they benefit from some form of security or lien over the assets, and are therefore in a preferential position over other, unsecured creditors.

In other words, in the event that the issuer were to default or become insolvent, the Sukuk holders would be able to recover their exposure by taking control of and ultimately realizing the value from the underlying asset(s). In this event, the transaction may achieve ratings that are higher than the unsecured issuer rating of the originator, subject to certain conditions.

It is this class of Sukuk that may warrant a lower regulatory capital charge when held on balance sheet. It would be erroneous to argue that Sukuk should have a lower capital charge in all instances, simply due to their collateralized nature, regardless of the type of Sukuk.

Where the transaction is asset-based (which has been the case for the vast majority of bank Sukuk so far), the originator undertakes to

continued...

The Meaning of Ratings for Islamic Financial Institutions (continued)

repurchase the assets from the issuer at maturity of the Sukuk, or upon a pre-defined early termination event, for an amount equal to the principal repayment.

In such a repurchase undertaking, the true market value of the underlying asset (or asset portfolio) is irrelevant to the Sukuk holders, as the amount is defined to be equivalent to the notes. In this case, investors in Sukuk rely wholly on the originator's creditworthiness for repayment. This class of Sukuk is identical to unsecured lending from an exposure perspective and hence the appropriate capital charge.

Thus, if the originating IFI is unable to honour its obligation to repurchase the assets, the note-holders are in no preferential position to any other similar creditors, or indeed in no weaker position to any other creditor ranking pari passu. With very few exceptions of bank Sukuk subordination, purchase undertakings usually rank pari passu with the originator's other senior unsecured obligations.

Where the issuing IFI already has a senior unsecured credit rating, the rating of the transaction would most likely equal the existing issuer rating. Otherwise, a bond rating can also be assigned without an issuer rating, although this would follow the same analytical approach. Subordinated Sukuk would be notched down from the senior unsecured ratings according to our published methodology, like any other subordinated conventional bond.

While most Sukuk will have assets in the structure, Moody's will only consider them to be asset-backed if the key securitization elements are in place to ensure that Sukuk holders have beneficial title and realizable security over the assets.

These elements essentially include bankruptcy remoteness, a set of legally watertight covenants and generation of independent cash flows that are aimed solely at servicing the transaction. If this is not the case, then our rating is likely to be governed more by the borrower or originator and our conventional corporate or bank analysis applies.

We expect that Shariah compliant securitization will expand going forward, and that therefore asset-backed Sukuk sponsored by IFIs and other corporations will grow materially in number and size. For IFIs, these structured Sukuk would play the roles of both attractive funding mechanisms and powerful balance-sheet and risk management tools.

So far, IFIs have preferred an originate-and-hold business model due to the lack of a secondary market for loans and Sukuk; however, in the longer term, IFIs with limited capital resources might be more inclined to adopt an originate-and-distribute business approach, provided disintermediation picks up, market depth and liquidity improves, and growth in Islamic assets continues unabated.

Unquestionably, a wider range of rated IFIs and Shariah compliant securities would in this context help accelerate the emergence of modern capital markets beyond bank intermediation in Muslim countries.

Having said that, Moody's analysis does not extend to forming an opinion on whether or not a transaction is indeed in compliance with Shariah law, and defers such judgments to the scholars best equipped for such an endeavour.

However, due to its relative importance in deriving a sound structure, Moody's would expect an endorsement by a recognised Shariah board that the structure is indeed Shariah compliant, particularly where non-compliance constitutes an event of default or acceleration event.

The limited precedents and the lack of a formal universally agreed validation criteria may add a further element of legal complexity to Sukuk transactions, given that Shariah is widely regarded as a matter of expert and consensual opinion rather than objective fact.

More importantly, Moody's examines the strength of the underlying purchase obligation as this constitutes the backbone of the Sukuk's principal repayment. Accordingly, Moody's prefers to see the undertaking agreed under types of law that have precedents in enforcing such undertakings. This does not entirely eliminate the risk of a local court overruling any applied law in the event of dispute, but such risk is commonly factored into any underlying rating of the company.

As a Sukuk transaction will involve not only the offering circular, but a variety of underlying agreements, Moody's requires draft versions of all these agreements at an early stage in order to determine the instrument rating.

Given the importance of enforceability and jurisdiction of a number of related legal documents that make up a Sukuk transaction, Moody's would normally ask for legal opinions on the legal, valid and enforceable nature underlying contracts of a Sukuk transaction.

Moody's therefore places strong emphasis on the applicable law, the most common and widely recognised being English or New York law, due to their creditor-friendly nature. We would expect opinions to address the enforceability of such contracts under local law.

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Anour is responsible for the rating coverage of banks in the MENA region and handles the global coordination of Moody's initiatives in Islamic finance.

Next Forum Question

Dubai is coming out with another Sukuk. In your opinion, how far has Dubai learned its lesson from Nakheel's Sukuk trouble? With Dubai coming to market, what can we expect from the investor community and what concerns still linger?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Monday, 5th July 2010.

Ratings for Assessing Credit and Market Risks in Shariah Funds

By Samira Mensah

The economic boom in the Gulf Cooperation Council (GCC) region has fueled the emergence of Islamic finance in the international market in the past decade, and ratings are providing a tool for investors to assess credit and market risks in Shariah funds for the first time, according to Samira Mensah and Mohamed Damak, credit analysts at Standard & Poor's Ratings Services (S&P).

The Middle East is by far the largest market for Shariah compliant funds, but conventional players in Europe, South Africa, and the US have also launched a number of funds that comply with Shariah law during past years, enhancing their product range to meet the specific requirements of Islamic investors seeking to invest in this asset class.

While the number of Shariah funds worldwide is estimated at around 500, the number of product types remains limited. We believe this is largely due to the nascent nature of Shariah funds, which have to be invested in ways that are permitted under Islamic law. Unlike traditional bond funds, Shariah funds do not invest in conventional rated fixed-income securities because these are, by definition, financial instruments that accumulate interest and are therefore not considered Shariah compliant.

In May 2010, S&P assigned its first 'AAf/S1+' fund credit quality and volatility ratings to a newly established Shariah fund — EFH Funds SCA SICAV-SIF-Liquidity Subfund, domiciled in Luxembourg and managed by European Finance House, (EFH) the European financial arm of Qatar Islamic Bank.

This new rating comes as Islamic finance investors, in the wake of the financial crisis and other drivers, show an increasing interest in diversifying their investments from traditional Shariah compliant financial instruments to more diverse, liquid Shariah compliant mutual funds like the EFH Funds SCA SICAV-SIF-Liquidity Subfund.

Shariah funds to invest in Shariah compliant investments

Conventional fixed-income securities are, by definition, financial instruments that provide a steady return based on an interest rate, and would typically not be considered Shariah compliant. Islamic financial instruments, by contrast, are structured to produce a profit instead of a fixed return tied to their face value. To comply with Shariah law, funds may only invest in Shariah compliant assets, and the shareholder of a Shariah fund typically shares the risks and rewards of the investment.

Funds are typically designed so that shareholders will see the value of their investment increase in proportion to the profit the fund produces. If the fund produces a loss, shareholders will usually have to bear the loss on a pro rata basis, unless it is due to management negligence or misconduct.

Appropriate investments for Shariah funds

Although we do not consider Shariah funds to be typical money-market funds, some of them can provide liquidity by investing in financial instruments or transactions that are similar in many ways to conventional money-market or fixed income instruments.

Wakalah — Some Shariah funds invest in Wakalah, which are agency contracts that include in their terms a fee for the expertise of the agent. We view Wakalah agreements as management mandates where the fund manager (Muwakkil) appoints a financial institution (Wakil) to invest a certain amount for a fixed period on its behalf. Wakalah may incorporate a liquidity feature to enable the fund manager to meet investors' redemptions.

Sukuk and Ijarah — Sukuk may be compared to bonds in many ways except that they do not bear interest. One of the most common structures for Sukuk issuance is Ijarah, whereby the Sukuk is structured around a pool of Ijarah transactions or a tangible asset being leased.

Types of Shariah funds

Given the restrictive rules by which Shariah funds must abide, many of them are invested in equity, Ijarah, Commodity Murabahah or a combination of these types of assets.

Equity funds are by far the leading asset class in Islamic funds. They are permitted to invest only in businesses that are deemed acceptable by Shariah boards. Although some of them may use a capital-protected strategy, equity funds are not eligible for a fund credit rating.

Ijarah funds aim to lease out assets they purchase, such as real estate or equipment, to their end users. Ijarah contracts are one of the few Islamic contracts that incorporate a fixed-income stream derived from the use of the underlying leased asset.

Commodity Murabahah funds are closed-end funds specifically set up to purchase commodities on behalf of clients and sell them back to these clients at an agreed margin of profit. This type of transaction can be compared to a fixed-rate loan.

Examining Shariah funds using funds criteria

We offer three types of ratings for funds: fund credit quality ratings, fund volatility ratings, and principal stability fund ratings (PSFRs; also known as money-market fund ratings). So far, Shariah funds have proved eligible for the first two types of ratings.

Fund credit quality and fund volatility ratings are more likely to be assigned to certain types of Shariah funds

Our fund credit quality ratings reflect our evaluation of a fund's protection against losses from credit defaults. To be eligible for a fund credit quality rating, the Shariah fund must invest in rated Islamic financial instruments that share characteristics with fixed-income securities.

Fund volatility ratings reflect our opinion of the fund's sensitivity to interest rate movements, credit risk, investment diversification or concentration, liquidity, leverage, and other factors. In our analysis, we assess the volatility of funds' monthly returns against government indices with different maturity bands. Our evaluation includes portfolio risk analysis, historical return analysis, and management assessment.

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Ratings for Assessing Credit and Market Risks in Shariah Funds (continued)

Assessing counterparty and investment risk

One of the key factors in assigning a fund credit quality rating to Shariah funds as fixed-income funds is our assessment of the creditworthiness of counterparties and investments.

Evaluating fund portfolios when assigning fund credit quality ratings

Under our rating criteria, Sukuk funds will typically be eligible for a rating as long as we rate all the underlying instruments of the fund's portfolio. A maximum of 25% of the underlying assets may be rated by other rating agencies.

When assigning a fund credit quality rating, we evaluate the fund's portfolio credit risk and conduct a qualitative assessment of the fund management's experience, credit, and investment policies. Fund credit ratings reflect our view of a fund's overall credit quality and its exposure to credit risk, the quality of management, the fund's investment strategy, and the creditworthiness of the investments held in its portfolio. We also typically consider the counterparties with which the fund engages in market transactions — for example, Wakalah agreements.

Applying our existing funds criteria

To evaluate a fund's credit risk using our existing criteria, we apply credit risk factors associated with each credit rating category and maturity bucket to the fund's percentage holdings. The credit risk factors are derived from our historical rating default and transition studies. The credit score obtained by the fund corresponds to a specific rating category. The final credit rating assigned to a fund takes into account our qualitative assessment of the fund management, but do not reflect our opinion on the fund's compliance with Islamic law.

Consequently, the ratings we would assign to Shariah funds would be based primarily on our view of the creditworthiness of Islamic counterparties and the ratings assigned to financial instruments in which they invest. Credit risk associated with Islamic financial institutions bears unique features compared to conventional financial institutions. We have therefore developed a specific set of criteria to better reflect the various risks of operating within the principles of Islamic law.

Impact of IFI ratings on rating

Our fund credit quality ratings reflect our opinion on the level of protection a fund provides against losses due to credit defaults on the assets the fund holds. The creditworthiness of Islamic financial institutions to which a fund is exposed and ratings on Islamic instruments such as Sukuk held by the fund play an important role in our assessment of the fund's overall credit quality.

Rating Islamic banks and Islamic instruments

Broadly speaking, we apply the same methodology used to rate conventional banks to Islamic banks. However, we do take into account the specific features and risks that may arise from operating in compliance with Shariah.

Credit risk

One of the principles of Islamic finance is that all the transactions have to be backed by a tangible asset, which means that Islamic banks tend to have more collateral than their conventional counterparts. However, in some cases such as mortgage lending, collateral foreclosure under a default scenario may be difficult or impossible. A bank's credit risk can also be influenced by how its operations are funded. Under the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) reporting standards, there is a separation between assets financed through equity and assets financed through profit-sharing investment accounts (PSIA). In the case of a default on some assets financed through PSIAs, the holders are supposed to share the losses.

> "Under the AAOIFI reporting standards, there is a separation between assets financed through equity and assets financed through profit-sharing investment accounts"

Market risk

Islamic banks largely escaped the first wave of the current financial crisis, partly because they did not invest in structured investment products. However, this does not mean that they are not exposed to market risk. Indeed, their investment portfolios are generally composed of equities, Sukuk, and real estate, which can be sources of market risk. Many Islamic banks are also exposed to margin risk that arises from their intermediation activity.

Funding and liquidity risk

Some Islamic banks rely to a certain extent on PSIAs for funding. The terms and conditions of PSIAs typically provide for depositors to be entitled to receive a share of the bank's profits, but also oblige them to bear potential losses pertaining to their investment in the bank. However, this profit-sharing principle may translate into a displaced commercial risk, and could result in a liquidity stress if PSIA holders decide to withdraw their deposits at maturity if the remuneration served by the bank is not in line with their expectations. We understand that Islamic banks have developed several layers of defense to manage this risk.

Demand for ratings on Shariah funds depends on the expansion of Islamic finance

The growth in the number of credit and volatility ratings we assign to Shariah funds will depend on the levels of credit ratings assigned to Islamic financial institutions. It will also be conditioned by further innovations from the Islamic finance sector, allowing it to offer a broader and more-liquid universe of rated investments to Shariah funds that are seeking to diversify their counterparty exposures and investments.

Finally, Islamic investors' risk tolerance and appetite for funds that combine Shariah compliant investments with credit and market risk management is also likely to influence the demand for Shariah fund ratings.

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Standard & Poor's focuses on Islamic finance through its objective credit ratings and tailored products.

Of champions and off-sides: Dow Jones Islamic Market Indexes in June 2010

By Gérard Al-Fil

Peace and prosperity go hand in hand and there is no better example this summer than Sri Lanka. The Dow Jones Islamic Market (DJIM) Amana Sri Lanka Index (up 9.66% at 1,967.82 points) posted the largest increase in June (as of the close of trading on the 22nd June). With a surge of 18.59%, the island's capital market is also the best performing Shariah compliant composite in relation to its year-to-date yield.

The country formerly known as Ceylon is reaping the benefits of the domestic peace process which started in 2009, when the defeat of the Tamil Tiger rebel group and the death of their infamous leader, Velupillai Prabhakaran, ended a brutal and devastating 26-year long civil war.

Asian stock markets once again topped the charts. Sri Lanka was followed by the DJIM South Korea Index (8% higher at 820.96 points) and the DJIM Thailand Index (gaining 6.18% at 1,512.94 points). The Islamic indexes of the Dow Jones universe covering Singapore, Asia Pacific, Hong Kong and China were also among the Top 10 in June, while the DJIIM Europe Titans 25 Index and the DJIM US Titans 50 Index only gained 1.90% and 0.78%, closing at 1,839.72 points and 1,993 points, respectively. The global bellwether Dow Jones Industrial Average, which measures the pulse of 30 US blue chips, finished 1.55% higher at 10,293.52 points.

"The risk appetite in the East is intact", says Didier Duret, chief investment officer at ABN Amro private banking in Geneva. "But in the West, gold has become somewhat the step-child of the crisis. Investors still shy away from overweighing stocks."

The European crisis for example triggered a run on gold in Germany. Despite some green shoots of an economic revival (the IMF expects the world economy to grow by 3.9% in 2010 and 4.2% in 2011), gold climbed from one record high to the next. An ounce of gold advanced 15% this year and traded around US$1,240 on the 22nd June, US$20 below its record peak in mid-June. If the yellow metal posts its 10th consecutive annual gain this year, it would be the longest advance since at least 1920.

Nevertheless jewelry traders in Dubai, the traditional Middle Eastern "City of Gold", still report rising demand. And the World Gold Council reports a rise in purchases in India, one of the world's most important markets in the yellow stuff.

"Despite some green shoots of an economic revival (the IMF expects the world economy to grow by 3.9% in 2010 and 4.2% in 2011), gold climbed from one record high to the next"

Contrary to the hunt for alleged secure assets, stock markets in the Persian Gulf disappointed in the first six months of 2010. The DJIM GCC Index only rose by 0.21% and ended at 1,184.45 points. The GCC is a political and monetary union comprised of Saudi Arabia, Kuwait, Qatar, Bahrain, the UAE and Oman. In the last of these countries, Islamic finance is forbidden by law.

The DJ Dubai Financial Market (DFM) Titans 10 Index was the only declining Islamic index in June, weakening 1.33% at 2,026.37 points. Dubai is also the worst performer on a year-to-date basis with minus 16.56%.

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Asia: Performance of DJIM versus conventional DJ Indexes

Dow Jones Islamic Market Indexes			Conventional Dow Jones Indexes		
Index Names	Index Close 22nd June 2010	MTD 2010	MTD 2010	Index Close 22nd June 2010	Index Names
DJIM Asia/Pacific Index	1296.74	5.23%	4.30%	121.79	DJ Asia/Pacific Index
DJIM China Offshore Index	2749.46	5.30%	5.88%	3994.08	DJ China Offshore 50 Index
DJIM Hong Kong Index	1444.80	5.49%	4.96%	407.73	DJ Hong Kong Index
DJIM India Index	1866.92	4.46%	4.27%	1841.33	DJ India Total Stock Market Index
DJIM Indonesia Index	1305.77	4.46%	6.87%	176.39	DJ Indonesia Index
DJIM Japan Index	1006.36	3.77%	2.15%	81.61	DJ Japan Index
DJIM Malaysia Index	1412.76	4.64%	5.08%	208.52	DJ Malaysia Index
Dow Jones-JS Pakistan Islamic Index	11130.96	2.46%	3.97%	564.02	DJ Pakistan Total Stock Market Index
DJIM Philippines Index	1554.71	0.73%	4.77%	191.87	DJ Philippines Index
DJIM Singapore Index	1071.78	5.72%	5.76%	269.92	DJ Singapore Index
DJIM South Korea Index	820.96	8.01%	7.71%	237.57	DJ South Korea Index
DJIM Amana Sri Lanka Index	1967.82	9.66%	12.24%	320.47	DJ Sri Lanka Index
DJIM Taiwan Index	4183.88	2.66%	3.51%	146.92	DJ Taiwan Index
DJIM Thailand Index	1512.94	6.18%	7.61%	108.91	DJ Thailand Index

Of champions and off-sides: Dow Jones Islamic Market Indexes in June 2010 (continued)

The DFM is currently merging with Dubai's international market, Nasdaq Dubai. Dr Nasser Saidi, chief economist of the Dubai International Financial Centre (DIFC) Authority, however, thinks that this is not enough. "We should integrate all UAE stock markets", he says. Such a move would include Abu Dhabi, home to 9% of the world's proven oil reserves.

Despite a rise of over 11% of the 'black gold,' the DJIM Oil and Gas Index rose only by 1.26% and it declined by 10.94% since the start of the year. Islamic banks seem to be recovering from the crisis step by step. Of the 17 largest Islamic banks in the GCC, only three posted balance sheet profits in 2009. But in June, the DJIM Financials Index posted the second largest advance (up 4.85%) among the industry composites.

Islamic banks are still mushrooming and the industry is heading to new markets as diverse as Germany, France and Algeria. Higher oil prices and the stronger economic relations between the GCC and the East are also helping the Islamic finance centres in Dubai, Bahrain and Saudi Arabia to flourish.

Ann Ayman, managing director head of emerging markets research at Nomura in Saudi Arabia, does not expect significant benefits for Arab oil states due to China's decision to end the Yuan's Dollar-peg. "While a modest appreciation of the Yuan against the greenback would help export competitiveness on the margin, the move is not likely to be large enough to result in any major shifts in export performance in the region," she says.

Nevertheless, China and other Asian economies seem to be poised to continue expanding in the near future. So we expect the music of growth to play in the East during this summer, as stock markets in that part of the world lead the way to recovery.

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JUNE 2010 "ISLAMIC MARKET'S MEASURE" — PRELIMINARY REPORT

Based on the close of trading on the 22nd June, the global **Dow Jones Islamic Market Titans 100 Index**, which measures the performance of 100 of the leading Shariah compliant stocks globally, gained 1.59% month-to-date, closing at 1939.90. In comparison, the **Dow Jones Global Titans 50 Index**, which measures the 50 biggest companies worldwide, posted a gain of 1.56%, closing at 156.04.

- The **Dow Jones Islamic Market Asia/Pacific Titans 25 Index**, which measures the performance of 25 of the leading Shariah compliant stocks in the Asia/Pacific region, increased 5.59%, closing at 1807.02. The **Dow Jones Asian Titans 50 Index**, in comparison, posted a gain of 3.86%, closing at 127.91.

- Measuring Europe, the **Dow Jones Islamic Market Europe Titans 25 Index**, which measures the performance of the 25 of the leading Shariah compliant stocks in Europe, closed at 1839.72, a gain of 1.90%, while the conventional **Dow Jones Europe Index** gained 4.94%, closing at 229.51.

- Measuring the performance of 50 of the largest Shariah compliant U.S. stocks, the **Dow Jones Islamic Market US Titans 50 Index** increased, closing at 1993.00. It represents a gain of 0.78%. The **US blue-chip Dow Jones Industrial Average** increased 1.55%, closing at 10293.52.

Middle East and GCC Regions

Dow Jones Islamic Market Indexes versus Conventional Dow Jones Indexes

In June, the **Dow Jones DFM Titans 10 Index**, measuring the 10 largest and most liquid stocks listed on the Dubai Financial Market, closed at 2026.37. It is a loss of -1.33% month-to-date.

The **Dow Jones Islamic Market Kuwait Index** posted a gain of 1.06%, closing at 844.13. Its conventional counterpart index, the **Dow Jones Kuwait Composite Index,** was down, closing at 204.19. It represents a loss of -0.29%.

The **Dow Jones Islamic Market Turkey Index** closed at 3145.53, a performance of 4.19% month-to-date, while the **Dow Jones Turkey** Total Stock Market Index closed at 1209.87, a gain of 5.41%.

Measuring the performance of Shariah compliant stocks of five of the GCC member states, the **Dow Jones Islamic Market GCC Index** closed at 1184.45, a gain of 0.21%. The conventional **Dow Jones GCC Index** was up 1.29%, closing at 1296.59.

Other Markets and Asset Classes

The **Dow Jones Islamic Market BRIC Equal Weighted Index** increased 4.68%. It had a closing value of 1945.05. By comparison, the **Dow Jones BRIC 50 Index** closed at 575.48, a gain of 4.72%.

The **Dow Jones Citigroup Sukuk Index**, which measures the performance of global bonds complying with Islamic investment guidelines, increased 0.31%, closing at 120.37.

The **Dow Jones Islamic Market Sustainability Index,** which measures sustainable practice business of companies respecting the Shari'ah laws, increased 2.54%, closing at 2169.78. The conventional **Dow Jones Sustainability Index** gain 4.01% with a closing value of 920.92.

Global June 2010 Industries Winners and Losers

The three best performing **Dow Jones Islamic Market Industry Indexes** were Utilities, Financials and Telecommunications with performances of 5.22%, 4.85% and 4.36%, respectively. The **Dow Jones Islamic Market Technology**, **Dow Jones Islamic Market Oil & Gas** and **Dow Jones Islamic Market Consumer Services indexes** were the three worst performing industry indexes with performances of 1.31%, 1.26% and -2.27%, respectively.

Frequently Asked Questions

By Brian Kettel

What Is Qiyas?

Literally, Qiyas means measuring or ascertaining the length, weight or quality of something. Qiyas also means comparison, with a view to suggesting equality or similarity between two things. Qiyas thus suggests an equality or close similarity between two things, one of which is taken as the criterion for evaluating the other.

Technically, Qiyas is the extension of a position from the Shariah to a new case, on the grounds that the latter has the same effective cause as the former. The original case is regulated by a given text, and Qiyas seeks to extend the same textual ruling to the new case. It is by virtue of the commonality of the effective cause, or 'illah, between the original case and the new case that the application of Qiyas is justified. A recourse to analogy is only warranted if the solution of a new case cannot be found in the Qur'an,the Sunnah or a definite Ijma.

Qiyas is defined, in Islamic theological parlance, as analogy, or analogical deduction. In other words, Qiyas is the legal principle introduced in order to derive a logical conclusion of a certain law on a certain issue that has to do with the welfare of Muslims. However, it must be based on the Quran, Sunnah and Ijma. This legal principle was introduced by Imam Abu Hanifah, the founder of the Hanafi school, in Iraq. The reason why he introduced it was to curb the excessive thinking and digression of the people from strict Islamic principles. There is nothing wrong in using Qiyas in deriving a logical conclusion in Islamic law in as much as that conclusion does not go against the injunctions of the Holy Quran or the Sunnah of the Prophet.

What is the Islamic legitimacy of Sukuk?

At the request of delegates from Jordan, Pakistan and Malaysia, the Academy of the Organization of the Islamic Conference, based in Saudi Arabia, considered the question of Islamic investment certificates at their fourth annual plenary session, held in Jeddah in February 1988.

The scholars noted that the Shariah encourages the documentation of contracts as stipulated in Sura 2:282 of the Quran:

When ye deal with each other, in transactions involving future obligations in a fixed period of time, reduce them to writing ... It is more just in the sight of God, more suitable as evidence and more convenient to prevent doubts among yourselves.

Subject to proper legal documentation, the Fiqh Academy, under decision number 5 of 1988 ruled that:

- any collection of assets can be represented in a written note or bond;
- this bond or note can be sold at a market price provided that the composition of the group of assets, represented by the security, consists of a majority of physical assets and financial rights, with only a minority being cash and interpersonal debts.

Although there is no compulsion to comply with the rulings of the Fiqh Academy, their rulings carry considerable weight with most Islamic financial institutions and also with their Shariah committees and advisers.

What is Salam Sukuk?

These are Sukuk that are based on the Salam mode of finance. The concept of Salam Sukuk refers to a sale, whereby the seller undertakes to supply a specific commodity to the buyer at a future date in return for an advanced price paid in full on a spot basis. The price is in cash but the supply of the purchased good is deferred. As a form of financing, the purchaser is able to acquire the assets by advance payment at a discounted price and subsequently sells the assets upon delivery.

Salam Sukuk represent a type of a forward contract which is forbidden under Shariah law unless there are strict conditions attached that aim at the elimination of uncertainty. Salam Sukuk differ from Istisnah Sukuk in that the purchase price for the assets under Salam Sukuk must be paid in full and the date of delivery must be fixed.

How and why has the Islamic legitimacy of Sukuk been Challenged?

Sheikh Taqi Usmani, Chairman of the AAOIFI Sharia'a Board commented, in late 2007, that about 85% of Islamic bonds (Sukuk) did not really comply with Sharia'a law. The whole rationale for the creation of Sukuk was to create an Islamically acceptable instrument that did not have the Ribawi (meaning linked to riba) elements associated with conventional bonds.

This is an extract from the book titled "Frequently Asked Questions in Islamic Finance".

Brian Kettel is a specialist trainer and consultant in Islamic finance, with a wealth of experience including as economic advisor for the Central Bank of Bahrain.

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Treatment Of Underwriting Deficit In Takaful

By Azeem Pirani and Farhan Noor

Takaful is a community-pooling system based on the principles of brotherhood and mutual help where participants contribute a Taburru amount (donation) in a common fund to help those in financial difficulty.

This common fund, or the Takaful fund, is created, operated, and managed by the Company's shareholders/management. The fund is, however, not owned by them. Critical and exclusive to Takaful, the shareholders contribute a 'ceding amount' (part of the capital) to create this fund which would be the Waqf fund in the Wakala-Waqf business model. From a Shariah point of view, the ownership of Waqf lies outside the person(s) who created the Waqf, and which in fact, rests with Allah Almighty. In other words, the fund does not even belong to the participants!

What if a deficit is registered in the Waqf fund? Who — the shareholders or the participants — should bear the responsibility to revitalize the fund?

The Takaful regulatory authority of Pakistan is the Securities & Exchange Commission (SECP), which is of the opinion that this responsibility should be shouldered by the shareholders in the form of a Qard Hasan (an interest-free benevolent loan) to the fund. The loan will be recoverable from the surplus generation in the subsequent year(s) of operations. But, is this just? Critically, the loan must not, in any way, influence the Wakala fee thereafter.

This article attempts to critically analyze, evaluate, and suggest the treatment of underwriting deficit in the Takaful companies.

Cause of deficit:

In our considered opinion, the study of the cause of deficit is irrelevant to the issue at hand. The deficit may have taken place or may take place as a result of economic recession or excessive claims despite quality underwriting practices and claim management, sound risk management controls, appropriate re-insurance arrangements, best business practices, and prudent and diligent investments.

Contrary, the deficit may also be a result of sheer negligence and imprudence on the part of the Takaful operator.

Irrespective of whether the deficit was caused by external and unavoidable factors or otherwise, it is proper to expect the Takaful operator, and not the participant, to inject interest-free loan money into the Waqf fund.

Ideally, in a perfect world, the onus of deficit reversal should neither be upon the shareholders nor the participants; they don't own the Waqf fund. However, since Takaful is an industry, having competitors, each vying for profits and growth, it is to the benefit of the Operator itself to offer such a service on the Shariah principle of Maslahah.

This act of goodwill will prove to the prospects and the participants alike the shareholders' commitment and sincerity of intentions and efforts in managing their savings. Besides, this is the industry norm and being competitive means being relevant and reasonable.

Moreover, the survival of the Waqf fund is in the business interest of the Operator. The Operator, after all, earns a pre-defined Wakala fee for managing it; no fund, no business.

Responsibilities of the shareholders and the perceived expectations from them:

The manager of the Waqf fund, or in this case the shareholders, is called the Mutawalli. The foremost responsibility of the Mutawalli is to preserve the Waqf and subsequently, perform in the best interest of the participants/beneficiaries, which is to maximize their benefits.

It is to be realized that the participants contribute their hard-earned lifelong savings into the Waqf fund and therefore, and reasonably so, expect it to come good at the time of need. The participants repose trust and confidence in the ability and sincerity of the Mutawalli to safeguard and protect the fund in a judicious manner as it would safeguard and protect its own.

This expectation is positively endorsed by the Mutawalli at every stage and process of the operations prior to the registration of the deficit, especially during pre-sales activities.

Now, in a post-deficit scenario, why should a change in this expectation be demanded?

Is it and should it not be an integral responsibility of the Mutawalli to manage the fund both in the good times and the bad times, especially when the Mutawalli is a financially stronger participant?

The Threat of Ittehaam:

There is a possibility of the charge of Ittehaam, or accusation of bad intentions or poor performance on the part of the Mutawalli, by the participants, if the burden of deficit reversal is rested upon the participants.

Exempting the Mutawalli from this particular responsibility would mean a free and a careless ride on their part. The Mutawalli may not have the incentive or the motivation to perform its due role with the required and expected excellence, if it has a share in the surplus but does not have to contribute in the event of the deficit.

Moreover, Ittehaam, whether based on Truth or falsehood, can easily ruin and tarnish the reputation of the Mutawalli and seriously impair its ability to conduct business.

Treatment of Deficit in the Case of Family Takaful Operations:

In Family Takaful operations, the participants' Taburru contributions are bifurcated into the Waqf fund and the Investment fund. Theoretically speaking, the Mutawalli may easily deduct a small percentage, say 2%, from each of the participants' investment fund in favor of the Waqf fund in an event of a deficit.

However in order to do so, a Shariah requirement needs to be met viz a viz a consensus approval from all the participants at the time for the

continued...

Treatment Of Underwriting Deficit In Takaful (continued)

same. An easy way in going about achieving this is to insert a relevant clause into the Waqf Rules which is duly signed and agreed by the participant at the time of becoming a member of the Waqf fund.

The threat of Ittehaam and the market forces will however not allow the realization of such a treatment of deficit which clearly goes against the interest of the participants at large.

The Waqf fund vs. the Participants:

The existential purpose of the Waqf fund is to benefit the participant at all times and at all costs; paying for deficit is not in the participant's interest.

For the Mutawalli it is important to equally serve and manage the interest of both the Waqf fund and the participant. However, the interest of the participant must remain supreme. A case study that of Pak-Qatar Family Takaful Limited, a Pakistani operator, is relevant in the context.

Pak-Qatar Family Takaful has designed their 'Share 'n Care' plan, a unit-linked product, in such a way that annual Taburru contributions received from the participant are dripped into the Waqf fund on a monthly basis.

This process is beneficial in favor of the participant but shows biasness against the Waqf fund as the Waqf fund is deprived of a better investment opportunity. It is beneficial in the sense that the participant suffers a loss of a monthly Taburru only as compared to annual Taburru if he/she invokes the free-look period clause of fourteen days. Point to note is that, in Shariah, what is once Waqf is applied, it remains forever.

Conclusion

There is no conflict of interest between shareholders and policyholders as to who should be responsible for injecting extra cash in the event of a deficit in the Takaful fund.

Theoretically speaking the onus of deficit reversal is neither upon the shareholder nor on the participant but in light of the principle of Maslahah (public interest), Urf (customary practice) and the threat of Ittehaam, it is advisable for the shareholders to bear the responsibility themselves.

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Islamic Finance *news* talks to leading players in the industry

Name: Muhammad Abdullah Al-Harith Sinclair

Position: Partner and head of Islamic finance

Company: Pinsent Masons

Based: London and Dubai

Age: 37

Nationality: British, Pakistani and Canadian

Could you provide a brief journey of how you arrived where you are today?

My father who is Scottish Canadian and my mother who is English, both converted to Islam, from Christianity, before I was born. I grew up both in Britain and in Pakistan, gaining Pakistani citizenship by naturalization. With my childhood spent on two different continents in two different cultures, I saw both the East and the West at close-up, from the inside and the outside.

These early origins gave me an understanding of how Islam is perceived by Muslims on one hand and by non-Muslims on the other. I learned Urdu as a second mother tongue when growing up in Pakistan and I studied Arabic language with Law at the University of London.

This background has provided me with the skills to act as an interpreter between the Islamic and non-Islamic worlds. Being a specialist Islamic finance lawyer applies that capability into my work as a banking and finance professional.

After working at Clifford Chance, one of the best UK law firms, and Cleary, Gottlieb, Steen & Hamilton, one of the best US law firms, I then became a partner at the leading UK international law firm Pinsent Masons.

Wanting to gain direct experience of the Arabian market, I moved to the Gulf from 2006 to 2009, where I worked as a Partner in a major law firm, advising clients across Arabia. I have now returned to Pinsent Masons.

What does your role involve?

I head the Islamic finance legal practice of Pinsent Masons across all our offices, spending the most time in our London office and UAE office. This involves a broad mix of Islamic treasury products (some of which have not been seen by the market and are very exciting), Islamic project finance, Islamic capital markets and Takaful.

What is your greatest achievement to date?

All achievements belong to Allah.

Which of your products/services deliver the best results?

Swiftly responding to clients' business needs for cutting-edge finance techniques that comply with the Shariah.

What are the strengths of your business?

Understanding Islam from the inside out, top tier quality of service and a team of globally experienced finance lawyers.

What are the factors contributing to the success of your company?

Decency, friendship and taking care of our clients as our friends.

What are the obstacles faced in running your business today?

The fragmentation of the Islamic finance market is the main obstacle, but it is also the biggest opportunity to add value.

Where do you see the Islamic finance industry in, say, the next five years or so?

Beginning to unite globally, not in standardized rules, but in mutual respect.

Name one thing you would like to see change in the world of Islamic finance.

The Prophet Muhammad, peace be upon him, said that there is a part of the human body which, if it is well, then the whole body is well and, if it is ill, then the whole body is ill, and that part is the heart. Islamic finance as an area of research only started only a few decades ago.

The global Islamic finance industry is even younger. We must not let such a youngster industry fall victim to early mistakes in interpretation. This requires us to be good Muslims and to meditate on what Allah wants us to achieve. For this we must use our hearts as well as our minds.

SUMMARY OF TERMS & CONDITIONS

Muhibbah Engineering
Sukuk Mudarabah

RM130 million (US$40.2 million)
nominal value

27th April 2010

Obligor/Issuer	Muhibbah Engineering
Tenor	Three and five years
Payment	Payable semi-annually, in arrears, the first of which shall commence six months from the date of issuance of the Sukuk
Maturity Date	27th April 2015
Lead Arranger	OCBC Bank
Financial Advisor	OCBC Advisers
Trustee	Malaysian Trustees
Legal Counsel	Shearn Delamore & Co
Governing Law	Laws of Malaysia
Principal activities	Investment holding, civil, marine and structural engineering contract works which include the construction of bridges, heavy concrete foundations, factory complexes, marine ports and other similar construction works.
Rating	'AAA(s)' by RAM Rating Services

The Q&A was conducted with OCBC Al-Amin Bank:

1. **Why did you use this particular Islamic structure? What other structures were considered?**
   As lead arranger of the Islamic bonds issuance for Muhibbah Engineering, OCBC Bank recommended the Mudarabah structure based on the Mutlaqah (absolute discretion) principle as it is a highly flexible approach. This structure facilitates the utilization of the proceeds for both funding of general working capital requirements and/or short- to mid-term expansion program. It is also suitable for a wide variety of corporations that are either 'asset light', have corporate structure restrictions on leveraging its assets base or with assets bases that are unsuitable for Shariah compliant securitization.

2. **What will this capital be used for?**
   To refinance existing bank borrowing. The issuance of Islamic bonds will further stabilize and enhance the Group's cash flow with long-term funding on a fixed rate basis over the next three to five years. This will mitigate the risk of exposure to further increases in financial market rates.

3. **What were the challenges faced and how were they resolved?**
   Under the Mudarabah structure, the issuer/ Mudarib is prohibited from guaranteeing the returns/capital. OCBC Bank as lead arranger structured the investment capital to be advanced to the Mudarib on a trust obligation basis for specified investment periods. Investor protection is enhanced vide the purchase undertaking from Muhibbah Engineering which is separately backed by a bank guarantee from Maybank. Also, several other Shariah neutral features including negative pledge and governing covenants (financial and commercial) provide early warning measures for investors to take timely precautionary measures, with the placement of these safeguards facilitating competitive pricing for the Sukuk issuers.

4. **Geographically speaking, where did the investors come from?**
   The issuance was distributed in the Malaysian domestic market to fixed income investors like insurance companies, asset management, banks and such.

5. **Was this deal rated? If not, explain why.**
   RAM had on the 16th April 2010 accorded an enhanced long-term rating of 'AAA(s)' with stable outlook to the company's proposed RM130 million Islamic bonds with 38 million detachable warrants of up to five years. The 'AAA(s)' rating is supported by an irrevocable and unconditional guarantee from Maybank.

JPMORGAN CHASE & CO

US: JPMorgan Chase & Co has named Doug Braunstein as its chief financial officer.

Braunstein, who was head of investment banking for the Americas, replaces Michael Cavanagh who will now function as the company's executive of its treasury and securities services.

JPMorgan Chase & Co offers Islamic banking services.

WHITE HOUSE

US: Samar Ali, a specialist in advising clients on Shariah compliant financial transactions has been selected as a White House Fellow.

He is also an associate with law firm Hogan Lovells and a founding member of the first US delegation to the World Islamic Economic Forum.

The White House Fellows program is a prestigious leadership and public service program where Fellows gain first-hand, high-level working experience with the federal government.

SIMMONS & SIMMONS

UK: Law firm Simmons & Simmons, which specializes in Islamic finance, has appointed Jonathan Marsh as partner for its financial services practice in London.

Marsh joins the firm from Berwin Leighton Paisner where he was a partner specializing in financial services.

He has also worked at Hunton & Williams, Hammonds, Sempra Metals and Linklaters.

BNP PARIBAS CORPORATE AND INVESTMENT BANKING

UK: BNP Paribas Corporate and Investment Banking (BNP Paribas CIB) has appointed Robert McAdie as global head of credit research and strategy, based in London.

McAdie will be responsible for overseeing the bank's global credit research function which encompasses independent credit research and strategy.

He will also be the sector specialists in conjunction with the credit trading desks.

Prior to his appointment, he was the global head of credit strategy and European head of credit research at Barclays Capital.

He was also previously attached to Lehman Brothers and Salomon Brothers.

BNP Paribas is the parent company of BNP Paribas CIB and Islamic subsidiary BNP Paribas Najmah.

CONYERS DILL & PEARMAN

GLOBAL: Conyers Dill & Pearman, which specializes in Islamic finance, has promoted five of its lawyers across its British Virgin Islands (BVI), Bermuda, Hong Kong and Singapore offices to partner status.

BVI-based Richard Evans (litigation department) specializes in securing the enforcement of interim relief, shareholders' and connected disputes, and disputed debt/distressed funds matters.

Bermuda-based Jeffrey Elkinson specializes in banking, trusts, insurance, reinsurance, construction, administrative law, telecommunications and energy.

He joins Michael Frith from the insurance department.

Richard Hall of the firm's Hong Kong office practices corporate law, while Kung Whooi Phing from the Singapore office has experience in corporate and commercial law.

CITI PRIVATE BANK

SWITZERLAND: Citi Private Bank has appointed Thierry Martin as team head and senior banker covering the Gulf region, based in Geneva.

In his new role, Martin will focus on the ultra-high net worth markets of Kuwait and Qatar.

He had spent over 23 years at UBS, with the Gulf region being his primary coverage market.

Citi Private Bank is a subsidiary of Citibank, which owns the Citi Islamic Investment Bank.

UBS

UAE: UBS has hired Anthony Iliya as its CEO for business in the Middle East and North Africa region, replacing Per Lasson.

His appointment commences on the 1st August 2010.

Iliya was previously the head of asset management for Asia Pacific at the Credit Suisse Group AG in Hong Kong.

UBS has an Islamic finance wealth management service provider.

DBS BANK

SINGAPORE: DBS Bank (DBS), which owns The Islamic Bank of Asia, has appointed Ken Stratton as the head of sales for the global transaction services, effective this September.

Stratton will manage the cash management, trade finance and securities and fiduciary services sales teams across DBS' 16 markets in Asia, UK, and the US.

He is currently the head of financial institution sales, treasury services for Australia and New Zealand at JP Morgan.

HOGAN LOVELLS

UK: Law firm Hogan Lovells has appointed Stuart Brinkworth as a partner for its banking practice in London effective the 1st October 2010.

Brinkworth specialized in leveraged buy-outs, public bids, trade purchases and recapitalizations while partner at SJ Berwin.

Hogan Lovells is involved in Islamic finance.

MIZUHO CORPORATE BANK

UK: Mizuho Corporate Bank, which is involved with Islamic banking, has appointed Jason Meyer as a director in the financial solutions group.

Meyer was previously a director in the investment banking division at Rothschild and vice-president in the global securitization team at Deutsche Bank.

Deal tracker

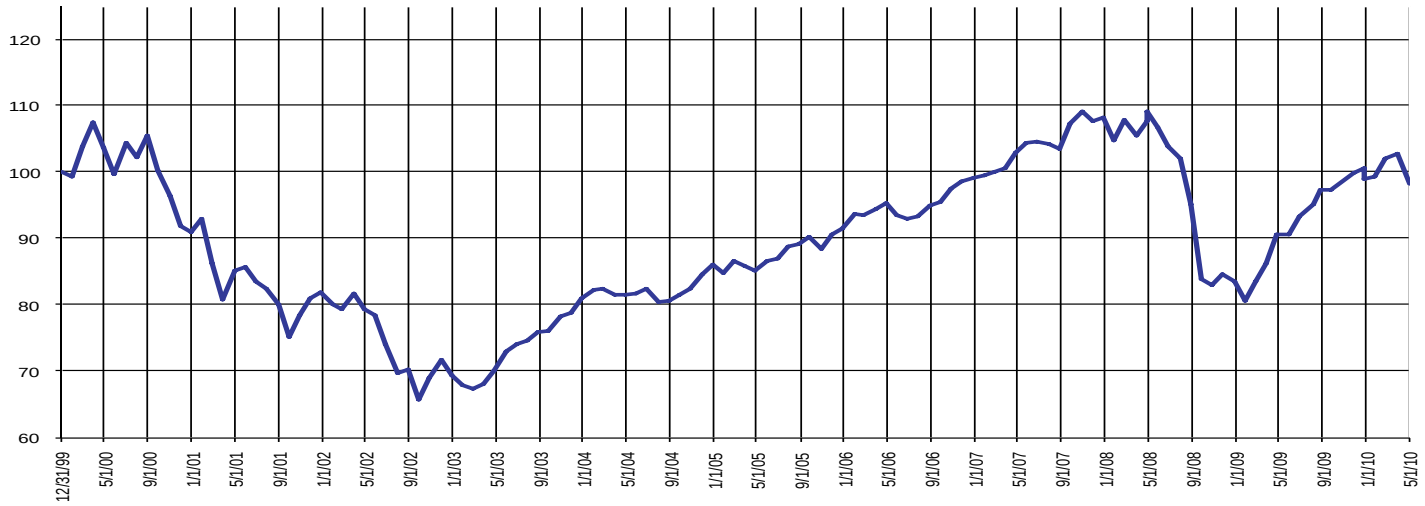
Keeping you abreast of the world's upcoming Shariah compliant deals

Another **Islamic Finance** *news* exclusive

ISSUER	SIZE	INSTRUMENT
Axiata Group	RM4.2 billion	Sukuk
Lebanon	TBA	Sukuk
Kazakhstan	TBA	Sukuk
Emirates Integrated Telecommunications	TBA	Sukuk
Nakheel	TBA	Sukuk
General Electric Capital	TBA	Sukuk
Cahaya Jauhar, Malaysia	RM114 million	Sukuk
Syarikat Borcos Shipping	RM370 million	Islamic Medium Term Notes Program
Saudi Home Loans Company	TBA	Sukuk
Dubai	TBA	Sukuk
Perusahaan Listrik Negara	IDR500 billion	Sukuk
Pakistan	PKR75 billion	Sukuk and conventional bonds
Maju Expressway	RM550 million	Sukuk
Finance ministry, Indonesia	US$500 million to US$600 million	Global Sukuk
Bank Negara Malaysia	RM2.5 billion	Sukuk
Ahmed Salem Bugshan Group	US$100 million	Sukuk
Kuwait Turkish Participation Bank (Kuwait Turk)	US$100 million	Sukuk
Finance Ministry of Qatar	QAR5 billion	Sovereign Sukuk
Khazanah Nasional, Malaysia	Between SG$300 million and SG$500 million	Sukuk
Saudi Electricity Company	TBA	Global Sukuk
Cagamas	US$3 billion	Sukuk
Bahrain	TBA	Sukuk
Malaysia Airports Holdings	US$301 million	Sukuk
Qatar Islamic Bank	US$750 million	Sukuk
Standard Chartered, UAE	US$4 billion	Sukuk
US Firm	US$250 million	Sukuk
GE Capital, US	TBA	Sukuk
Qatari Diar Real Estate, Qatar	US$1.5 billion	Sukuk
Swedish Export Credit Corporation	TBA	Sukuk
Asian Development Bank, Philippines	TBA	Sukuk
Central Bank of Kenya	TBA	Sukuk

For more details and the full list of deals visit
www.islamicfinancenews.com

Eurekahedge Global Islamic Fund Index



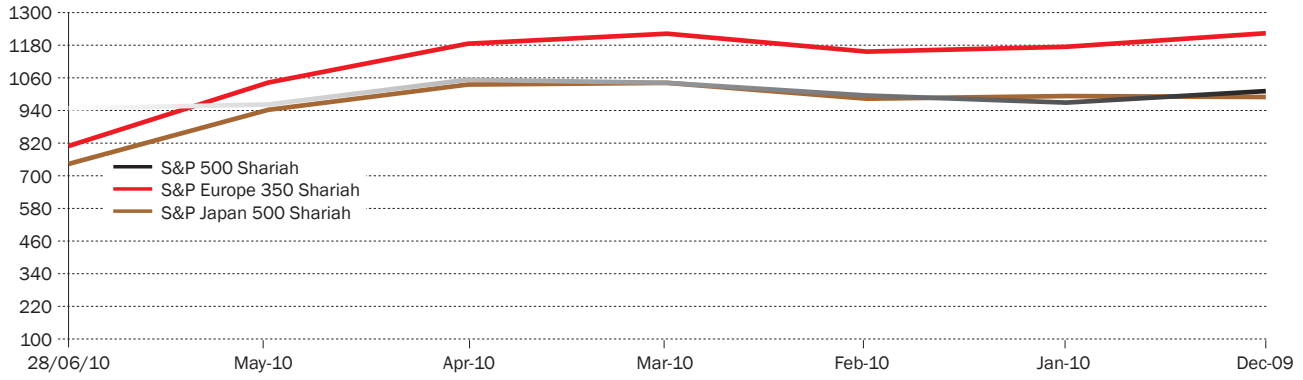
Monthly returns for ALL funds (as of the 29th June 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Gold	ETFS Metal Securities	2.36	Jersey
2	Zajil - Service & Telecommunications	National Investments Company	1.34	Kuwait
3	Islamic Certificate on HSBC Absolute Return	ABN AMRO Bank	1.13	Not disclosed
4	Meezan Islamic Income	Al Meezan Investment Management	0.92	Pakistan
5	Insight I-Hajj Syariah	Insight Investments Management	0.91	Indonesia
6	PB Islamic Bond	Public Mutual	0.91	Malaysia
7	RHB Islamic Bond	RHB Investment Management	0.85	Malaysia
8	PNM Amanah Syariah	PNM Investment Management	0.74	Indonesia
9	Public Islamic Bond	Public Mutual	0.70	Malaysia
10	Avenue Asnita Bond	Avenue Invest	0.63	Malaysia
	Eurekahedge Islamic Fund Index*		-4.86	

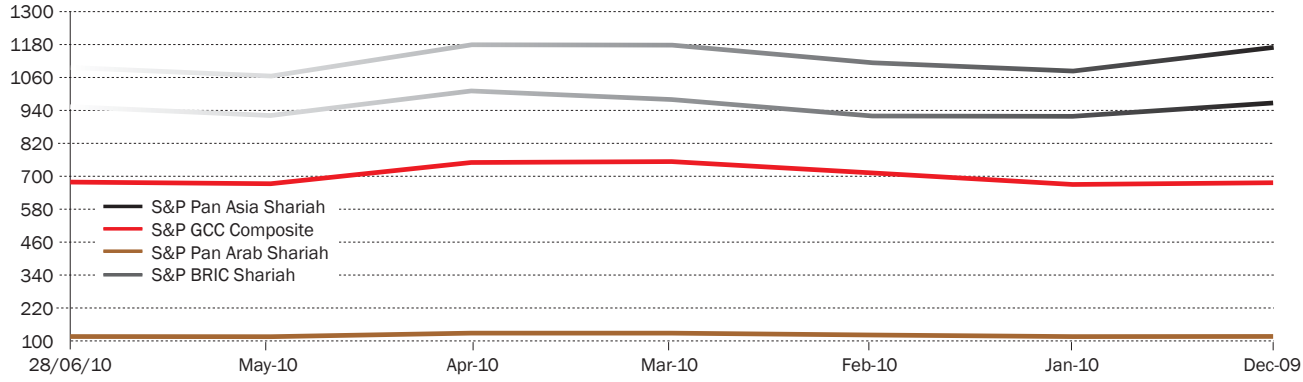
Monthly Returns for Global (as of the 29th June 2010)

	FUND	FUND MANAGER	PERFORMANCE MEASURE	FUND DOMICILE
1	ETFS Physical Gold	ETFS Metal Securities	2.36	Jersey
2	Islamic Certificate on HSBC Absolute Return	ABN AMRO Bank	1.13	Not disclosed
3	ING Baraka Commodities Capital Protected	ING Funds	0.29	Malaysia
4	CIMB Islamic Structured Growth	CIMB-Principal Asset Management	0.22	Malaysia
5	CIMB Islamic Commodities Structured 1	CIMB-Principal Asset Management	0.21	Malaysia
6	Prudential Shariah FX (PRU shariah fx)	Prudential Management	0.19	Malaysia
7	HSBC-Link Ethical Capital Protected (Formerly Takaful Sinaran)	HSBC Insurance Singapore	0.15	Singapore
8	Al Rajhi Commodity Mudarabah - EUR	Al Rajhi Bank	0.12	Saudi Arabia
9	Al Rajhi Commodity Mudarabah - SAR	Al Rajhi Bank	0.11	Saudi Arabia
10	Watani USD Money Market	National Bank of Kuwait	0.10	Cayman Islands
	Eurekahedge Global Islamic Fund Index*		-4.53	

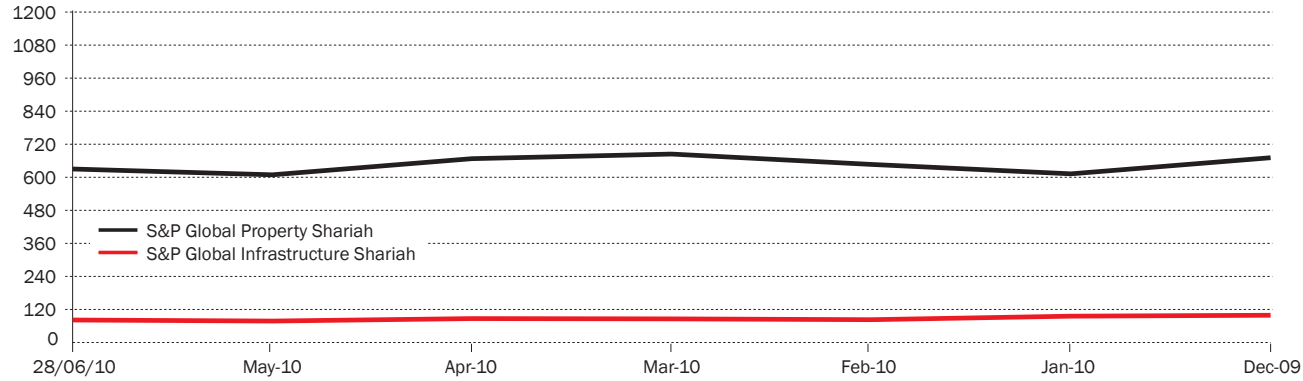
S&P Shariah Indices Price Index Levels



Index Code	Index Name	28/06/10	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09
SPSHX	S&P 500 Shariah	947.504	962.089	1053.050	1041.681	995.080	968.978	1011.317
SPSHEU	S&P Europe 350 Shariah	809.415	1042.504	1185.474	1222.354	1156.441	1174.161	1223.984
SPSHJU	S&P Japan 500 Shariah	743.508	942.416	1035.333	1041.497	983.363	993.055	989.581



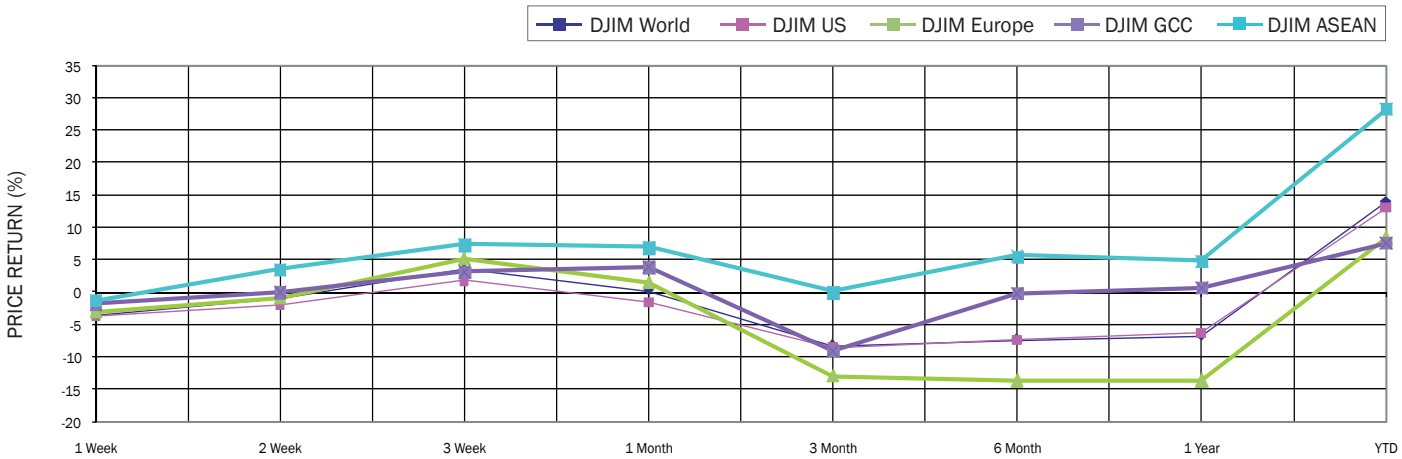
Index Code	Index Name	28/06/10	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09
SPSHAS	S&P Pan Asia Shariah	953.284	921.335	1010.900	979.563	919.609	918.391	967.112
SPSHG	S&P GCC Composite Shariah	678.771	672.795	750.159	753.479	712.179	670.074	676.445
SPSHPA	S&P Pan Arab Shariah	115.922	115.358	128.364	128.302	121.503	115.703	116.267
SPSHBR	S&P BRIC Shariah	1100.671	1069.475	1183.561	1182.207	1117.929	1087.775	1173.998



Index Code	Index Name	28/06/10	May-10	Apr-10	Mar-10	Feb-10	Jan-10	Dec-09
SPSHGU	S&P Global Property Shariah	630.00	608.951	667.560	684.290	646.637	612.470	670.976
SPSHIF	S&P Global Infrastructure Shariah	81.66	77.86	86.827	85.743	82.828	95.596	98.914

Data as of the 28th June 2010

PERFORMANCE OF DJ INDEXES



INDEX	1 Week	2 Week	3 Week	1 Month	3 Month	6 Month	1 Year	YTD
DJIM World	-3.45	-0.94	3.51	0.25	-8.29	-7.31	-6.82	14.01
DJIM US	-3.76	-2.01	1.69	-1.58	-8.55	-7.40	-6.31	13.06
DJIM Europe	-3.05	-0.85	5.09	1.53	-12.94	-13.54	-13.61	8.44
DJIM GCC	-1.80	-0.01	3.10	3.84	-9.00	-0.16	0.69	7.59
DJIM ASEAN	-1.25	3.56	7.38	6.96	0.03	5.58	4.83	28.27

*all performance is cumulative, based on price return and US$

DESCRIPTIVE STATISTICS	Market Capitalization (US$ billion)							Component Weight (%)	
INDEX	Component number	Full	Float adjusted	Mean	Median	Largest	Smallest	Large	Small
DJIM World	2352	14215.64	11131.67	4.73	0.99	298.63	0.01	2.68	0.00
DJIM US	588	6139.38	5769.01	9.81	2.56	298.63	0.17	5.18	0.00
DJIM Europe	263	2562.98	2037.02	7.75	1.86	120.21	0.11	5.90	0.01
DJIM GCC	114	200.70	85.08	0.75	0.29	9.52	0.03	11.19	0.03
DJIM MENA	158	348.25	96.11	0.61	0.18	11.88	0.02	12.36	0.02
DJIM ASEAN	204	387.29	154.16	0.76	0.16	15.59	0.01	10.11	0.00
DJIM Titans 100	100	6149.20	5431.91	54.32	34.79	298.63	11.88	5.50	0.22
DJIM Asia/Pacific Titans 25	25	979.29	629.50	25.18	19.31	64.37	11.88	10.23	1.89

For more information, please visit **www.djislamicmarkets.com** or contact

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DOWJONES

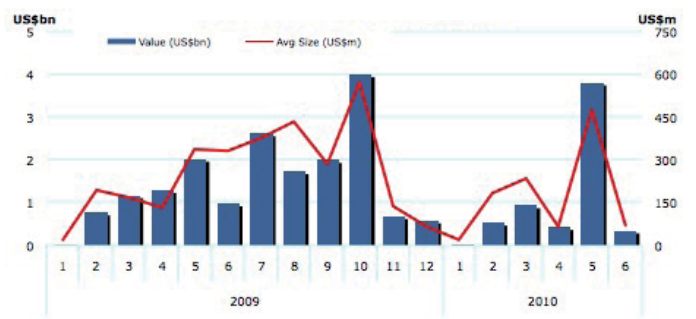
TOP 30 ISSUERS OF ISLAMIC BONDS — *12 Months*

	Issuer	Nationality	Instrument	Market	Amt US$	Iss	%	Managers
1	Saudi Electricity	Saudi Arabia	Sukuk Istithmar	Domestic market public issue	3,733,000,000	2	20.9	HSBC, Samba Capital
2	Government of Dubai	UAE	Sukuk	Euro market public issue	1,931,000,000	1	10.8	Standard Chartered,UBS, National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank Mitsubishi, UFJ Financial Group, Emirates NBD, Al Hilal Bank
3	Petronas Global Sukuk	Malaysia	Sukuk Ijarah	Euro market public issue	1,498,000,000	1	8.4	Morgan Stanley, CIMB, Citigroup
4	Malaysia	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	1	7.0	HSBC, Barclays Capital, CIMB
5	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	1	5.6	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
6	Cagamas	Malaysia	Sukuk	Domestic market public issue; Domestic market private placement	996,000,000	8	5.6	RHB Capital, CIMB, Maybank Investment Bank, HSBC, Cagamas, AmInvestment
7	Islamic Development Bank	Saudi Arabia	Sukuk Wakalah	Euro market public issue	850,000,000	1	4.8	Deutsche Bank, BNP Paribas, HSBC, CIMB
8	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue	612,000,000	1	3.4	Standard Chartered, HSBC, OCBC, RHB Capital, CIMB
9	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	1	3.3	Public Bank, CIMB, Maybank Investment Bank
10	Syarikat Prasarana Negara	Malaysia	Sukuk Ijarah	Domestic market private placement	573,000,000	1	3.2	CIMB, Maybank Investment Bank
11	GE Capital Sukuk	US	Sukuk	Euro market public issue	498,000,000	1	2.8	Goldman Sachs, KFH National Bank of Abu Dhabi, Citigroup
12	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	446,000,000	1	2.5	Goldman Sachs, Deutsche Bank, Unicorn Investment Bank
13	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	442,000,000	2	2.5	CIMB, Standard Chartered
14	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	407,000,000	1	2.3	Standard Chartered, BNP Paribas
15	MISC	Malaysia	Sukuk Murabahah	Domestic market public issue	368,000,000	2	2.1	HSBC, CIMB, AmInvestment
16	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	341,000,000	1	1.9	CIMB
17	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	1	1.7	CIMB
18	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah	Domestic market public issue	193,000,000	1	1.1	Saudi Hollandi Bank, Riyad Bank
19	Islamic Republic of Pakistan	Pakistan	Sukuk	Domestic government debt	174,000,000	1	1.0	Standard Chartered
20	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	1	0.9	CIMB
21	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	1	0.9	HSBC, Maybank Investment Bank
22	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	1	0.9	HSBC, CIMB
23	Penerbangan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	148,000,000	2	0.8	Bank Muamalat Malaysia, CIMB, HSBC, AmInvestment
24	UMW Holdings	Malaysia	Sukuk Musharakah	Domestic market private placement	141,000,000	1	0.8	Maybank Investment Bank
25	International Finance	US	Sukuk	Euro market public issue	100,000,000	1	0.6	HSBC, KFH, Dubai Islamic Bank, Liquidity Management Centre
26	Gamuda	Malaysia	Sukuk Musharakah	Domestic market private placement	97,000,000	1	0.5	CIMB, AmInvestment
27	CIMB Islamic Bank	Malaysia	Sukuk Musharakah	Domestic market public issue	86,000,000	1	0.5	CIMB
28	Citydev Nahdah	Singapore	Sukuk Ijarah	Domestic market private placement	72,000,000	2	0.4	CIMB
29	Syarikat Borcos Shipping	Malaysia	Sukuk Ijarah	Domestic market private placement	48,000,000	1	0.3	Bank Muamalat Malaysia
30	Talam	Malaysia	Sukuk	Domestic market public issue	38,000,000	1	0.2	RHB Capital
	Total				**17,899,000,000**	**71**	**100.0**	

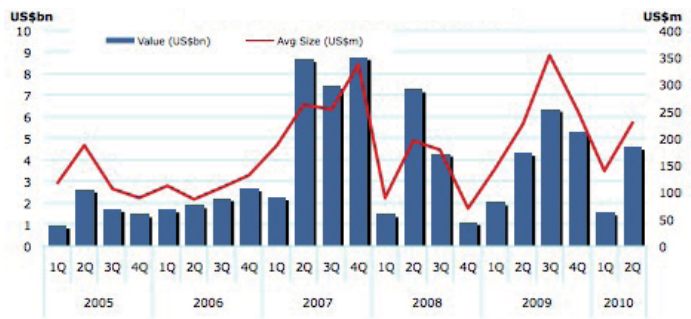
20 MOST RECENT GLOBAL ISLAMIC BONDS

Priced	Issuer	Nationality	Instrument	Market	Value US$	Managers
22nd Jun 2010	National Bank of Abu Dhabi	UAE	Sukuk Murabahah	Foreign market public issue	153,000,000	HSBC, Maybank Investment Bank
14th Jun 2010	Maju Expressway	Malaysia	Sukuk Musharakah	Domestic market public issue	168,000,000	CIMB
27th May 2010	Malaysia	Malaysia	Sukuk Ijarah	Euro market public issue	1,250,000,000	HSBC, Barclays Capital, CIMB
24th May 2010	Projek Lebuhraya Utara Selatan	Malaysia	Sukuk Musharakah	Domestic market private placement	301,000,000	CIMB
10th May 2010	Saudi Electricity	Saudi Arabia	Sukuk	Domestic market public issue	1,866,000,000	HSBC, Samba Capital
7thMay 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	314,000,000	AmInvestment
22nd Apr 2010	Cagamas	Malaysia	Sukuk	Domestic market private placement	156,000,000	AmInvestment
1st Apr 2010	Bank Pembangunan Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	153,000,000	HSBC, CIMB
31st Mar 2010	Danga Capital	Malaysia	Sukuk Musharakah	Domestic market public issue	612,000,000	Standard Chartered, HSBC, OCBC RHB Capital, CIMB
10th Mar 2010	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	359,000,000	Standard Chartered, CIMB
11th Feb 2010	Dar Al-Arkan International Sukuk	Saudi Arabia	Sukuk	Euro market public issue	450,000,000	Goldman Sachs, Deutsche Bank,Unicorn Investment Bank
25th Dec 2009	Saudi Hollandi Bank	Saudi Arabia	Sukuk Mudarabah	Domestic market public issue	193,000,000	Saudi Hollandi Bank, Riyad Bank
21st Dec 2009	Cagamas	Malaysia	Sukuk	Domestic market private placement	148,000,000	Cagamas
19th Nov 2009	GE Capital Sukuk	United States	Sukuk	Euro market public issue	500,000,000	Goldman Sachs, KFH, National Bank of Abu Dhabi, Citigroup
16th Nov 2009	Cagamas	Malaysia	Sukuk	Domestic market private placement	142,000,000	CIMB, Maybank Investment Bank
28th Oct 2009	Government of Dubai	UAE	Sukuk	Euro market public issue	1,931,000,000	Standard Chartered, UBS, National Bank of Abu Dhabi, Dubai Islamic Bank, Bahrain Islamic Bank, Mitsubishi UFJ Financial Group, Emirates NBD, Al Hilal Bank
22nd Oct 2009	Pengurusan Aset Air	Malaysia	Sukuk Ijarah	Domestic market private placement	741,000,000	CIMB
14th Oct 2009	Sime Darby	Malaysia	Sukuk Musharakah	Domestic market public issue	590,000,000	Public Bank, CIMB, Maybank Investment Bank
13th Oct 2009	TDIC Sukuk	UAE	Sukuk Ijarah	Euro market public issue	1,000,000,000	Standard Chartered, HSBC, Abu Dhabi Commercial Bank
16th Sep 2009	Islamic Republic of Pakistan	Pakistan	Sukuk	Domestic government debt	174,000,000	Standard Chartered

GLOBAL ISLAMIC BOND VOLUME BY MONTH



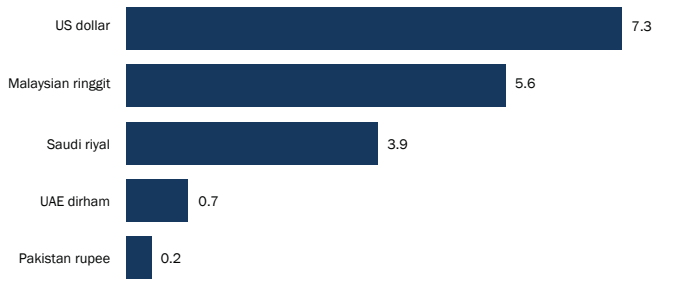
GLOBAL ISLAMIC BOND VOLUME BY QUARTER



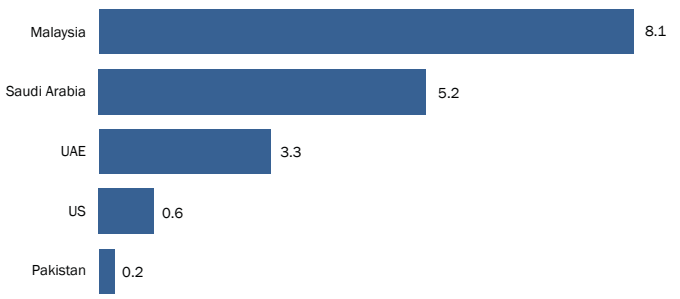
TOP 30 MANAGERS OF ISLAMIC BONDS *12 Months*

	Manager	Amt US$	Iss	%
1	CIMB	3,664,000,000	32	20.5
2	HSBC	3,330,000,000	14	18.6
3	Samba Capital	1,866,000,000	2	10.4
4	Standard Chartered	1,284,000,000	10	7.2
5	Maybank Investment Bank	867,000,000	9	4.8
6	AmInvestment	672,000,000	9	3.8
7	Citigroup	599,000,000	2	3.4
8	Morgan Stanley	499,000,000	1	2.8
9	Barclays Capital	417,000,000	1	2.3
10	BNP Paribas	416,000,000	2	2.3
11	Deutsche Bank	361,000,000	2	2.0
12	Abu Dhabi Commercial Bank	333,000,000	1	1.9
13	Dubai Islamic Bank	331,000,000	2	1.9
14	Mitsubishi UFJ Financial Group	324,000,000	2	1.8
14	UBS	306,000,000	1	1.7
16	Emirates NBD	306,000,000	1	1.7
17	RHB Capital	262,000,000	4	1.5
18	Goldman Sachs	248,000,000	2	1.4
19	KFH	224,000,000	2	1.3
20	Bahrain Islamic Bank	208,000,000	1	1.2
21	National Bank of Abu Dhabi	197,000,000	2	1.1
22	Public Bank	197,000,000	1	1.1
23	Unicorn Investment Bank	149,000,000	1	0.8
24	OCBC	137,000,000	2	0.8
25	Cagamas	101,000,000	1	0.6
26	Al Hilal Bank	97,000,000	1	0.5
27	Saudi Hollandi Bank	97,000,000	1	0.5
27	Riyad Bank	97,000,000	1	0.5
29	Bank Muamalat Malaysia	85,000,000	2	0.5
30	(Persero) Danareksa	41,000,000	5	0.2
	Total	17,899,000,000	71	100

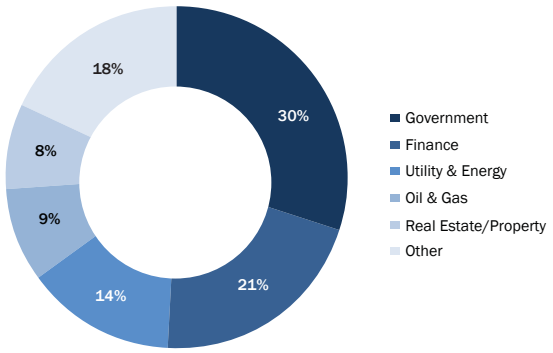
ISLAMIC BOND VOLUME BY CURRENCY US$ (BILLION)



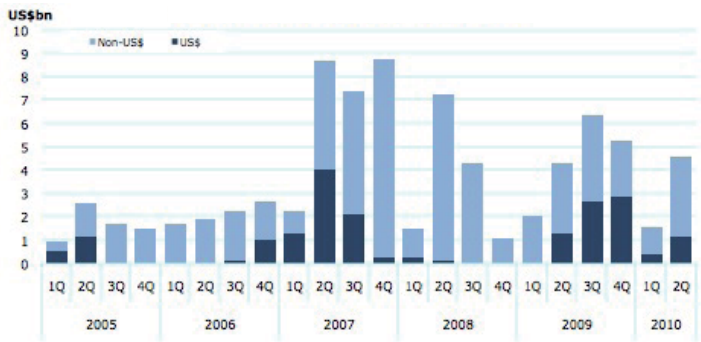
ISLAMIC BOND VOLUME BY ISSUER NATION US$ (BILLION) - *12 Months*



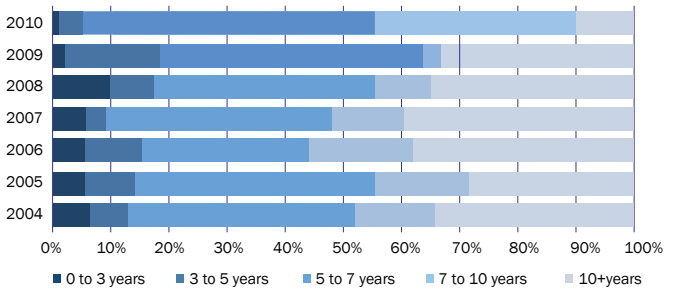
GLOBAL ISLAMIC BOND VOLUME BY SECTOR - *12 Months*



GLOBAL ISLAMIC BOND VOLUME - US$ ANALYSIS



GLOBAL ISLAMIC LOANS - YEARS TO MATURITY *(YTD Comparison)*



ALL DATA AS OF THE 28th JUNE 2010

SUKUK MANAGERS (12 months) JUNE 2009 – JUNE 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	22,841,347,600	89	52.6
2	CIMB	4,923,501,298	87	11.3
3	HSBC Banking Group	2,168,387,226	47	5.0
4	Malayan Banking	1,296,290,752	90	3.0
5	Citigroup	1,266,664,629	6	2.9
6	Morgan Stanley	1,215,000,000	5	2.8
7	RHB Banking Group	1,067,447,721	33	2.5
8	Malaysian Industrial Development Finance	962,392,230	229	2.2
9	Samba Financial Group	933,261,000	1	2.2
10	AMMB Holdings	843,412,178	63	1.9
11	Standard Chartered	740,695,346	15	1.7
12	Dubai Islamic Bank	602,646,875	3	1.4
13=	Mitsubishi UFJ Financial Group	482,646,875	2	1.1
13=	UBS	482,646,875	2	1.1
15	Barclays Bank	412,500,000	1	1.0
16	Cagamas	378,217,781	34	0.9
17	Indonesia (Government)	244,383,617	14	0.6
18	Affin Holdings	206,020,715	20	0.5
19	OCBC Bank	186,581,940	27	0.4
20	EON Capital	167,446,752	77	0.4

SUKUK MANAGERS (3 months) MAR 2010 - JUNE 2010

	Manager	Manager Commitment (in US$)	Issues	Market Share %
1	Malaysia (Government)	7,296,162,000	30	62.0
2	CIMB	1,860,698,066	28	15.8
3	HSBC Banking Group	599,455,824	8	5.1
4	AMMB Holdings	438,341,768	14	3.7
5	Barclays Bank	412,500,000	1	3.5
6	Malayan Banking	286,484,939	21	2.4
7	Malaysian Industrial Development Finance	225,806,627	48	1.9
8	RHB Banking Group	187,093,800	4	1.6
9	Cagamas	155,901,900	6	1.3
10	EON Capital	54,433,375	17	0.5
11	Bukhary Capital	48,062,090	3	0.4
12	Affin Holdings	46,231,970	4	0.4
13	OCBC Bank	45,136,560	4	0.4
14	OSK Holdings	40,213,959	5	0.3
15	United Overseas Bank	28,753,072	5	0.2
16	Hong Leong Financial Group	10,911,915	1	0.1
17=	Standard Chartered Bank	10,822,500	1	0.1
17=	Indo Premier Securities	10,822,500	1	0.1
19	Public Bank	7,758,210	2	0.1

SUKUK ISSUERS (12 months) JUNE 2009 – JUNE 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	11,716,181,300	58	25.3
2	Malaysia (Government)	9,424,109,500	26	20.3
3	Bank Indonesia	3,623,558,955	47	7.8
4	Petronas Global Sukuk	3,000,000,000	2	6.5
5	Dubai DOF Sukuk	1,930,587,500	2	4.2
6	Perusahaan Penerbit SBSN Indonesia	1,912,798,258	9	4.1
7	Saudi Electricity	1,866,522,000	1	4.0
8	Cagamas	1,446,913,680	35	3.1
9	Khazanah Nasional	1,073,562,800	3	2.3
10	TDIC Sukuk	1,000,000,000	1	2.2
11	Pengurusan Air SPV	950,718,040	4	2.1
12	ESSO Malaysia	797,547,300	11	1.7
13	Danga Capital	621,408,000	1	1.3
14	Sime Darby	594,088,000	3	1.3
15	Syarikat Prasarana Negara	577,872,000	2	1.2
16	MISC	572,905,000	6	1.2
17	Dar Al-Arkan International Sukuk	450,000,000	1	1.0
18	Malakoff	331,466,000	2	0.7
19	Projek Lebuhraya Utara-Selatan	303,767,000	1	0.7
20	Rantau Abang Capital	287,900,000	1	0.6

SUKUK ISSUERS (3 months) MAR 2010 - JUNE 2010

	Issuer	Issuer Commitment (in US$)	Issues	Market Share %
1	BNM Sukuk	4,178,849,100	22	36.5
2	Malaysia (Government)	3,091,823,900	8	27.0
3	Cagamas	715,581,400	7	6.3
4	Danga Capital	621,408,000	1	5.4
5	Perusahaan Penerbit SBSN Indonesia	512,148,570	3	4.5
6	Bank Indonesia	314,083,993	7	2.7
7	Projek Lebuhraya Utara-Selatan	303,767,000	1	2.7
8	Pengurusan Air SPV	210,853,040	1	1.8
9	ESSO Malaysia	187,093,800	4	1.6
10	Maju Expressway	172,521,800	11	1.5
11	Malakoff	155,642,000	1	1.4
12	Gamuda	99,324,800	1	0.9
13	Toyota Capital Malaysia	82,646,655	2	0.7
14	Hytex Integrated	77,097,572	10	0.7
15	Haluan Gigih	55,870,200	5	0.5
16	Syarikat Borcos Shipping	48,062,090	3	0.4
17	Hubline	46,231,970	4	0.4
18	MM Vitaoils	45,949,516	16	0.4
19	Muhibbah Engineering (M)	40,466,920	2	0.4
20	Citydev Nahdah	35,971,600	1	0.3

Islamic Sukuk league tables reflect Shariah compliant bonds showing evidence of ownership of assets or their earnings. These results include (but are not limited to) the following securities/assets: Sukuk Salam, Sukuk Mudarabah, Sukuk Ijarah, Sukuk Murabahah, Sukuk Istisna and Sukuk Musharakah.

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ALL DATA AS OF THE 28th JUNE 2010

LOAN MANDATED LEAD ARRANGERS — JUNE 2009 – JUNE 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1	HSBC	1,586,719,392.23	5,727,789,333.62	6	15.1
2	Standard Chartered	1,160,069,229.53	4,033,106,140.19	7	11.0
3	Qatar Islamic Bank	1,098,538,943.20	1,098,538,943.20	1	10.4
4	Samba Financial	921,188,778.30	3,169,622,223.41	3	8.7
5	National Commercial Bank	821,191,444.89	2,769,632,889.79	2	7.8
6=	Credit Agricole Corporate & Investment Bank	791,722,058.82	4,302,800,000.00	3	7.5
6=	Al Rajhi Banking & Investment	791,722,058.82	4,302,800,000.00	3	7.5
8	Arab Bank	448,847,058.82	2,024,800,000.00	2	4.3
9	Noor Islamic Bank	318,518,806.42	796,685,802.85	3	3.0
10	WestLB	235,879,372.86	591,161,570.19	4	2.2
11=	Alinma Bank	187,875,000.00	1,503,000,000.00	1	1.8
11=	Bank of China	187,875,000.00	1,503,000,000.00	1	1.8
13	Royal Bank of Scotland	175,000,000.00	525,000,000.00	2	1.7
14	Al Hilal Bank	172,870,616.42	359,741,232.85	2	1.6
15=	Gulf Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.5
15=	National Bank of Kuwait	155,000,000.00	775,000,000.00	1	1.5
15=	Standard Bank Group	155,000,000.00	775,000,000.00	1	1.5
18	Citigroup	130,500,000.00	130,500,000.00	3	1.2
19	Masraf Al Rayan	126,666,666.67	460,000,000.00	2	1.2
20	Riyad Bank	117,644,392.23	699,989,333.62	2	1.1
21	National Bank	99,997,333.40	399,989,333.62	1	0.9
22	Arab Banking	84,648,190.00	253,944,570.00	1	0.8
23	Development Bank of Singapore	67,222,222.22	400,000,000.00	3	0.6
24	Mitsubishi UFJ Financial Group	42,647,058.82	400,000,000.00	2	0.4
25	Kuwait Finance House	33,787,869.59	231,161,570.19	2	0.3
26	BNP Paribas	31,647,058.82	342,000,000.00	2	0.3
27=	Sumitomo Mitsui Financial Group	26,666,666.67	160,000,000.00	1	0.3
27=	Malayan Banking	26,666,666.67	160,000,000.00	1	0.3
27=	Bank Islam Malaysia	26,666,666.67	160,000,000.00	1	0.3
30=	Bumiputra-Commerce Holdings	25,000,000.00	100,000,000.00	1	0.2
30=	Oversea-Chinese Banking Corp	25,000,000.00	100,000,000.00	1	0.2
32=	Abu Dhabi Commercial Bank	18,232,314.04	91,161,570.19	1	0.2
32=	Standard Bank	18,232,314.04	91,161,570.19	1	0.2
34=	CM-CIC	17,647,058.82	300,000,000.00	1	0.2
34=	BayernLB	17,647,058.82	300,000,000.00	1	0.2

LOAN BOOKRUNNERS (12 Months) — JUNE 2009 – JUNE 2010

	Lender	Pro Rata (US$)	Full Credit (US$)	Deals	Market Share %
1=	Credit Agricole Corporate & Investment Bank	1,249,900,000.00	2,499,800,000.00	1	27.8
1=	Al Rajhi Banking & Investment	1,249,900,000.00	2,499,800,000.00	1	27.8
3	Qatar Islamic	1,098,538,943.20	1,098,538,943.20	1	24.4
4	WestLB	291,161,570.19	291,161,570.19	3	6.5
5=	Noor Islamic Bank	159,648,190.00	478,944,570.00	2	3.5
5=	Standard Chartered Bank	159,648,190.00	478,944,570.00	2	3.5
7	Citi	130,500,000.00	130,500,000.00	3	2.9
8	Arab Banking	84,648,190.00	253,944,570.00	1	1.9
9	Royal Bank of Scotland	75,000,000.00	225,000,000.00	1	1.7

ISLAMIC LOANS RAISED (12 Months) — JUNE 2009 – JUNE 2010

	Borrower	Country	Islamic Loan Amount (US$)
1	Zain	Saudi Arabia	2,499,800,000
2	Rabigh Independent Power Project	Saudi Arabia	1,503,000,000
3	Qatari Diar Real Estate Investment	Qatar	1,500,000,000
4	Saudi Binladen	Saudi Arabia	1,266,632,890
5	Qatari Diar Real Estate Investmen	Qatar	1,098,538,943
6	Etihad Etisalat	Saudi Arabia	399,989,334
7	International Petroleum Investment	UAE	317,741,233
8	Qatari Diar Real Estate Investment	Qatar	300,000,000
9	Al Dur Power & Water	Bahrain	300,000,000
10	Asya Katilim Bankas	Turkey	253,944,570
11	Dubai International Capital	UAE	225,000,000
12	Qatar Airways	Qatar	160,000,000
13	Bahrain Mumtalakat Holding	Bahrain	140,000,000
14	Gulf Finance House	Bahrain	100,000,000
15	Emirates Trading Agency	UAE	100,000,000
16	Olam International	Singapore	100,000,000
17	Global Investment House	Kuwait	91,161,570
18	Lana Development	Kuwait	77,500,000
19	Al Jaber Aviation	UAE	42,000,000
20	Ozkan Demir Celik Sanayi	Turkey	40,000,000
21	Adopen Plastik ve Insaat	Turkey	13,000,000

ALL DATA AS OF THE 28th JUNE 2010

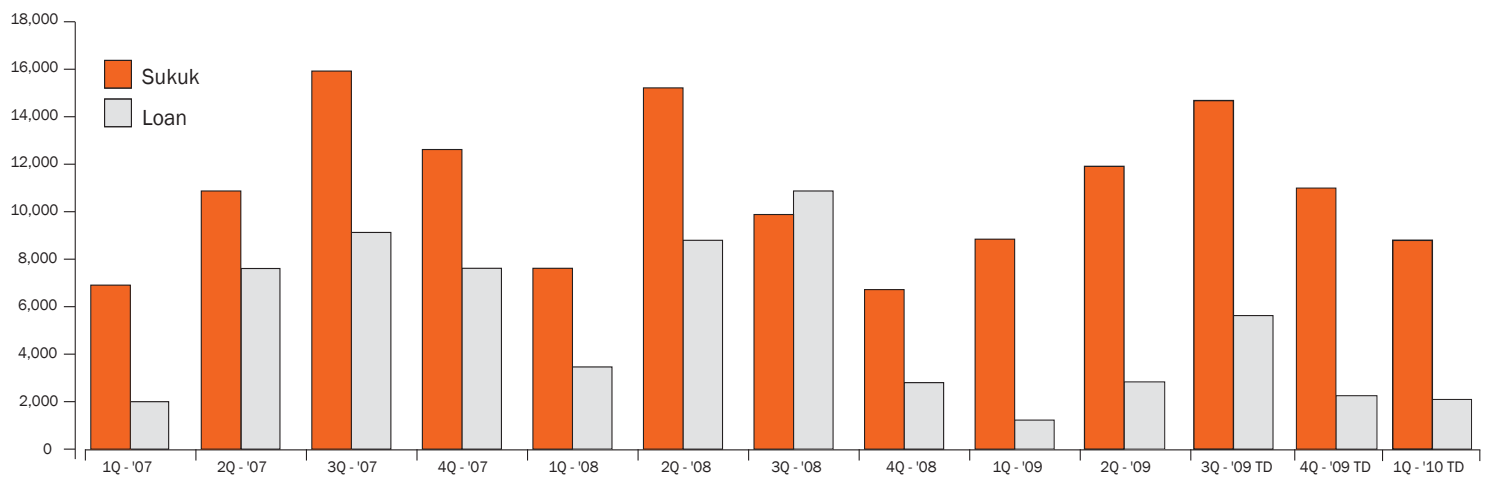
SUKUK BY COUNTRY	(12 Months)	JUNE 2009 – JUNE 2010
Country	Volume Issued	Volume Outstanding
Malaysia	31,758,792,547	21,401,768,658
Indonesia	5,709,810,826	2,244,416,067
Eurobond	4,430,587,500	4,430,587,500
Saudi Arabia	2,059,850,500	2,059,850,500
US	2,075,000,000	2,075,000,000
Pakistan	174,265,020	174,265,020
Singapore	92,728,884	92,728,884
Bahrain	63,353,380	26,521,700
Cayman Islands	-	-
UAE	-	-
Jersey	-	-

LOANS BY COUNTRY	(12 Months)	JUNE 2009 – JUNE 2010
Country	Volume (US$)	Market Share (%)
Saudi Arabia	5,669,422,223	53.8
Qatar	3,058,538,943	29.1
UAE	684,741,233	6.5
Bahrain	540,000,000	5.1
Turkey	306,944,570	2.9
Kuwait	168,661,570	1.6
Singapore	100,000,000	0.9

SUKUK BY INDUSTRY	(12 Months)	JUNE 2009 – JUNE 2010
Industry	Volume Issued	Volume Outstanding
Other financial	22,579,330,082	14,199,530,497
Sovereign	13,221,933,474	9,756,538,715
Agency	3,106,172,038	3,051,824,378
Electric power	2,230,183,097	2,054,359,097
Manufacturing	2,023,255,098	1,296,274,840
Transportation	1,438,780,485	1,281,712,820
Energy company	869,517,635	124,040,870
Service company	477,178,938	331,262,802
Banks	280,009,300	280,009,300
Consumer goods	116,830,910	108,387,410
Telephone	21,197,600	21,197,600

LOANS BY INDUSTRY	(12 Months)	JUNE 2009 – JUNE 2010
Industry	Volume (US$)	Market Share(%)
Telecommunications	2,977,289,334	28.3
Real estate	2,898,538,943	27.5
Utilities	1,803,000,000	17.1
Construction	1,366,632,890	13.0
Financial services	810,106,140	7.7
Chemicals, plastics and rubber	330,741,233	3.1
Transportation	160,000,000	1.5
Wholesale	100,000,000	0.9
Aerospace and defense	42,000,000	0.4

GLOBAL ISLAMIC VOLUME SUKUK/LOANS (US$ IN MILLIONS)



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EVENTS DIARY

DATE	EVENT	VENUE	ORGANIZER
July			
1st	4th International Islamic Capital Market Forum	Kuala Lumpur	Securities Commission Malaysia
5th – 7th	Asia Islamic Banking Conference	Kuala Lumpur	Fleming Gulf
12th – 15th	ETF Investments 2010	Singapore	Kavaq Events
14th – 15th	The International Takaful Summit 2010	UK	Afkar Consulting
14th – 15th	World Takaful Conference	Kuala Lumpur	MEGA Events
22nd – 24th	1st World Dinar Conference 2010 – The Global Economic Crisis: An Islamic Response	Kuala Lumpur	Qafilah Qey
August			
2nd – 5th	7th Kuala Lumpur Islamic Finance Forum	Kuala Lumpur	CERT
3rd	IFN Roadshow India	Mumbai	REDmoney *events*
5th	IFN Roadshow Pakistan	Karachi	REDmoney *events*
September			
20th – 22nd	Sukuk Asia Forum	Jakarta	IQPC Worldwide
	IFN Roadshow Japan	Tokyo	REDmoney *events*
	IFN Roadshow Korea	Seoul	REDmoney *events*
October			
4th – 7th	Islamic Finance World Africa 2010	Johannesburg	Terrappin
6th	IFN Roadshow Saudi Arabia	Saudi Arabia	REDmoney *events*
18th – 22nd	25th East Asian Insurance Congress	Bali, Indonesia	EAIC Organizing Committee
25th – 28th	Global Islamic Finance Forum 2010 (GIFF 2010)	Kuala Lumpur	REDmoney *events*
26th – 28th	IFN *Issuers & Investors* Asia Forum 2010	Kuala Lumpur	REDmoney *events*
November			
9th	IFN Roadshow Canada	Toronto	REDmoney *events*
10th – 11th	Middle East Life & Family Takaful Summit	Dubai	Asia Insurance Review
12th	IFN Roadshow UK	London	REDmoney *events*
22nd – 24th	The World Islamic Banking Conference	Bahrain	MEGA Events
25th	IFN Roadshow France	Paris	REDmoney *events*
December			
1st – 2nd	Annual Conference on Islamic Banking & Finance	Manama	AAOIFI
13th	IFN Roadshow Brunei	Brunei	REDmoney *events*

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